

**EXECUTIVE PERSONAL MISCONDUCT: AN EXISTENTIAL
STIGMA THAT INCREASES THE LIKELIHOOD OF DIRECTOR
EXIT**

A Dissertation

by

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ABSTRACT

This study examines how an executive personal misconduct event is associated with negative organizational and reputational signals and engenders an increased likelihood that an outside director will exit a firm. Specifically, I hypothesize that an executive personal misconduct event – which is conceptualized as a top executive’s immoral character indiscretion unrelated to the operations of the firm and carried out strictly for private benefit – may increase the likelihood of outside director exit. This executive personal misconduct context enables theoretical development in stigma theory by clarifying how reputational penalties transform an originating existential stigma into an achieved stigma that spreads to the highest point of a firm: the board of directors. Thus, this study suggests that the personal character and misbehavior of the top executive is an underexplored significant type of misconduct that may create negative implications for a firm and its associated leaders.

DEDICATION

To my Mom and Dad, my amazing wife Quitzia, and my entire loving and supporting family. Words cannot reflect how much each of you means to me.

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CHAPTER I

INTRODUCTION

The introduction of new technologies and communication has enabled increased visibility and insight into the moral character of a firm's management (Umphress, Tihanyi, Bierman, & Bogus, 2013). Private-public boundaries are less transparent and are encroaching on these key internal stakeholders' personal lives in ways that transcend the traditional notions of the work environment (Hymowitz, 2007; Mayo, Pastor, Gomez-Mejia & Cruz, 2009; Scott, 2004; Umphress et al., 2013). As a result, these increasingly amorphous professional boundaries have created expectations for greater professionalism in employee behavior that occur both inside and outside the workplace (Gely & Bierman, 2007; Smith & Kidder, 2010; Umphress et al., 2013).

Firms and external constituents are now more aware of employee personal actions that transpire within and outside the workplace, and are subsequently concerned with how inappropriate behaviors – independent of the employee's operational roles and tasks – reflect badly on the organization (Brown & Vaughn, 2011). For instance, Umphress et al. (2013: 202) states, "if an employee is convicted of illegal activities within their nonwork life, such as drug possession or theft, his or her organization might face criticism from the community and customers for employing this individual."

Granted these developments, moral character and behavior that reflect the individual character of a higher ranking firm member is of particular concern for firms, as these individuals are conjunctively more visible than the average employee and have the strategic capability to impact an entire organization (Fanelli & Misangyi, 2006; Graffin, Bundy, Porac, Wade, & Quinn, 2013; Hambrick & Mason 1984; Hayward, Rindova, & Pollock, 2004; Westphal & Deephouse, 2011; Westphal & Graebner, 2010). Because executives are the face and persona of a firm, what they do in their personal lives is a relevant part of the image of their associated firm (Lin, 2008; Umphress et al., 2013).

A personal misdeed by a top executive that is outside or unrelated to firm operations and tangential to the scope of the executive's job responsibilities can represent a type of executive corporate misconduct that reflects poor moral character. Scholars have characterized corporate misconduct as transgressions carried out by one or more members of a firm deemed to have violated constituents' legal, ethical, or socially recognized boundaries (Greve, Palmer, & Pozner, 2010).

When executives use poor judgment and take actions that risk the welfare of their constituents – even if it happens in their personal life – they compromise the trust of their organization. Stakeholders may use a personal character defect of a high-ranking executive as an indication of decline in the overall competency of a firm's leadership (Tichy & DeRose, 2012). As a result, in the past, when executives performed their jobs well, there was not much concern about their activities that were unrelated to the functions of their jobs. However, misbehavior indirectly related to an executive's

operational role might present a threat beyond the culpable individual's personal life and career, affecting the company as well.

Negative reactions and consequences that stem from the executive's misdeed may spread to the associated firm and related firm actors. Individuals tied to and responsible for the actions of the culpable executive, such as the board of directors, may also face reputational threats. Since these individuals are tasked with overseeing a firm's management; including their hiring, firing, and performance evaluation (e.g., Daily, Dalton, & Cannella, 2003), negative implications from the personal event may spread to these individuals even though they are tangential to the focal event.

To observe this scenario, this dissertation proposes that after an executive personal misconduct event, there is an increased likelihood an outside director will exit a misconduct firm. Director exit is often used to measure the spread of a negative reaction after a corporate misconduct event (Arthaud-Day, Certo, Dalton, & Dalton, 2006; Cowen & Marcel, 2011; Gangloff, Connelly, & Shook, in press), and outside directors are defined as 'all non-management members of the board' and are therefore not connected to the focal misconduct event (Johnson, Daily, & Ellstrand, 1996: 417). This research on how executive personal and moral misconduct indiscretions spread negative effects beyond the initial culpable executive to non-focal actors may greatly inform the management literature and advance theory among several literature streams.

The Two Different Perspectives of Corporate Misconduct

While the relationship between executive personal characteristics and firm strategy is a well-known and important topic within the management literature (Herman & Smith, 2015), the study of executive corporate misconduct that involves a moral defect in character, rather than a misstep in operational competency, is an underexplored topic (Greve et al., 2010). Research on corporate misconduct has used two distinct lenses to examine misbehavior that occurs within or by firms. The first lens uses individual employees to describe the antecedents of misconduct within a firm. This view terms these individuals “bad apples,” and depicts misconduct within organizations as a result of individual’s lacking ethical character (Trevino & Youngblood, 1990). This micro perspective of misconduct explores individual moral attributes, including a lack of integrity (Frost & Rafilson, 1989), moral identity (Aquino & Reed, 2002; Reed & Aquino, 2003), self-control (Marcus & Schuler, 2004), and empathy (Eisenberg, 2000) in order to develop predictions and explanations for people who engage in misconduct (Ashforth, Gioia, Robinson, & Treviño, 2008). This view examines moral character to explain antecedents of misconduct and how misconduct spreads to related individuals within an organization. This perspective is seldom used in the study of executives, and to explain macro-related outcomes, such as the effects on a firm or its board of directors.

An alternative perspective in the misconduct literature employs a macro lens towards deviant firm behavior. This perspective shifts the focus of wrongdoing away from individual deviant actions to a firm level unit of analysis that examines immoral actions that occur within the course of firm production. This view of misconduct

examines unethical behavior and procedural lapses in the course of firm production that create negative repercussions for a firm and its management (Ashforth et al., 2008). This view is entitled the “bad barrels” perspective, and interprets misconduct as an organizational phenomenon that is manifested in immoral firm behavior counter to the interests of the firm’s stakeholders (Ashforth et al., 2008; Devers, Dewett, Mishina, & Belsito, 2009; Greve et al., 2010; Pozner, 2008). This view interprets misconduct as a lapse in organizational competency that often spreads throughout the firm, and even to unrelated industry parties (Ashforth et al., 2008; Jonsson, Greve, & Fujiwara-Greve, 2009; Paruchuri & Misangyi, 2015). However, this “bad barrel” perspective rarely examines firm and board-related outcomes as a result of individual immoral character transgressions of management. Instead, much of this literature investigates a narrow set of firm level operational misconduct contexts, such as financial restatements or firm illegality to portray firm level impropriety (Greve et al., 2010).

The convergence of the “bad apple” and “bad barrel” perspectives assumes that “a bad apple spoils the barrel” (Felps, Mitchell, & Byington, 2006). The conjunction of the two perspectives asserts that when a dominant individual is able to establish corrupt practices and routines, it engenders deviant behaviors in other individuals (Ashforth et al., 2008; Pinto, Leana, & Pil, 2008; Schein, 1990). Therefore, if one’s dishonest actions are allowed, they “can spread to other individuals and magnify in scope and audacity, in ways that can eventually transcend individuals and groups and become embedded in the very culture of an organization and industry” (Ashforth et al., 2008: 671).

However, due to the aforementioned societal changes in visibility, a dominant individual within an organization, such as a high-ranking executive, can possess an asymmetric and deleterious effect on the firm and other high ranking firm members because he or she is simply associated with the organization without necessarily corrupting internal workplace behavior or organizational functions and production (Engelen, 2011). Therefore, consequences from an executive's immoral character transgression may transcend the culpable individual and transform into general competency concerns that spread to other responsible parties and actors that were not part of the focal misconduct. Importantly, if this supposition were found to be the case, then observation of this phenomenon would bridge the two misconduct perspectives and offer an additional explanation on how a rotten apple can spoil the barrel.

The Reaction to Misconduct and Stigma Theory

The understanding of negative repercussions of executive personal misconduct and its spread to the board of directors also confronts a theoretical gap found in the misconduct literature employing stigma theory. As misconduct is primarily phenomenological, research examining reputational outcomes of misconduct has frequently enlisted stigma theory in order to explain the process by which a misconduct event transcends beyond the initial actor to inflict harm on actors associated with the transgressor (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Gangloff et al., in press; Jonsson et al., 2009; Kang, 2008; Marcel & Cowen, 2014; Moore, Stuart, & Pozner, 2010; Paruchuri & Misangyi, 2015; Wiersema & Zhang, 2013). Derived from the

disapproval of social control agents who perceive socially discredited characteristics, conduct, or associations with a certain actor or actors, a stigma is described as a reputational stain that distinguishes a person or group as morally degraded (Goffman, 1963).¹

In a corporate misconduct event, stigma describes the interpretation, denouncement, and reputational penalties following an indiscretion, and is therefore generally used to explain a reaction to the event (Mishina & Devers, 2012; Pozner, 2008; Wiesenfeld, Wurthmann, & Hambrick, 2008). Within management literature, much of the focus on misconduct is concentrated on contexts that involve an *achieved stigma*, which is a stigma received because an actor or party contributed to the action or behavior that attained the stigma in question (Falk, 2001). In contrast, an *existential stigma* is described as a stigma that is not derived from a condition caused by the intentional actions of the focal actor or party (Falk, 2001). Using the context of an executive personal misconduct event and its effect on director exit enables exploration that will hopefully provide a better understanding of the spread of existential stigma within organizations.

Applying stigma theory to executive personal misconduct evokes a distinct existential stigma process wherein the individual executive achieves the initial stigma, and an executive's relational connection to a firm initiates a distinct secondary stigma befalling other individuals tasked with the monitoring and oversight responsibilities of managers (Barnett, 2014; Engelen, 2011; Wiersema & Zhang, 2013; Zavyalova, Pfarrer,

¹ Social control agents are actors or groups that enforce conformity to societal norms or mandates, either by law or by social pressure.

Reger, & Shapiro, 2012). Thus, the integration of stigma theory with executive personal misconduct offers greater insight into how negative attributes stemming from the individual transgression help turn an existential stigma into an achieved stigma that spreads to other members within a given firm.

Stigma by Association and Director Exit

It has long been recognized in the corporate misconduct literature that the misconduct event and accompanying reputational penalties that befall a firm initiate director exit (Arthaud-Day et al., 2006; Srinivasan, 2005). Instances of director exit are particularly salient when firm reputational penalties ensue after a misconduct event, as firms and directors cope with a looming stigma threat. A stigma threat – whether real or potential – may be instigated by an event and negative reputational signals that follow wrongdoing (Boivie, Graffin, & Pollock, 2012; Engelen, 2011; Umphress et al., 2013; Wiersema & Zhang, 2013). Thus, director exit after a misconduct event signifies, negative stigmatizing effects of the event have spread beyond the focal actor.

Moreover, outside director exit can be either a voluntary or involuntary decision. In involuntary exit, firms attempt to deflect criticism by sharing the blame among organizational elites. Particular organizational elites, including directors, are often implicated in firm misgivings and face labor market consequences including involuntary exit because they are associated with a perceived governance failure (Fahlenbrach, Low, & Stulz, 2010; Pozner, 2008; Wiesenfeld et al., 2008). Another consideration in director exit is voluntary exit. In recognizing that an event of corporate misconduct is a detriment

to their reputation, directors who fear an organizational or social sanction can also proactively sever ties and exit a firm implicated in corporate misconduct in order to preserve his or her reputation (Marcel & Cowen, 2014; Semadeni, Cannella, Fraser, & Lee, 2008).

Additionally, individual attributes of an outside director's involvement in the organization may affect their propensity to exit a firm. In the aftermath of a personal misconduct event, the likelihood of director exit can also be influenced by the individual's level of involvement with the tainted organization (Boivie et al., 2012; Marcel & Cowan, 2014; Withers, Corley, & Hillman, 2012). Based on stigma theory, greater board leadership involvement, which is viewed as directors serving in leadership roles within the board, can also be viewed as a detriment to the director. Greater involvement is a signal of possible increased culpability because the director possesses more firm knowledge and is tasked with greater oversight responsibility of management, and is therefore more closely related to the event than other directors (Arthaud-Day et al., 2006; Srinivasan, 2005). As a result, the director may consequently face increased pressure to exit because it is perceived that he or she was more aware of the event and in control of the situation (Crocker, Major, & Steele, 1998; Devers et al., 2009; Goffman, 1963).

Research Questions

1. Does executive personal misconduct cause penalties for the implicated individual's associated organization?
2. Compared with non-misconduct firms, is executive personal misconduct associated with outside director exit in misconduct firms?
3. Do signals that indicate firm reputational harm emanating from the social context, stock market, and internal turmoil within a firm, as demonstrated by executive turnover, affect outside director exit in misconduct firms?
4. Does the role an outside director serves on a board affect the propensity to exit following misconduct?

Contributions

This study addresses the above-mentioned gaps and has the potential to contribute to management literature in several ways. First, the idea that immoral character behavior indirectly related to a firm causes external observers to associate such actions with the organization provides a novel meso view of corporate misconduct that may alter the management literature's current conceptions of the type of misconduct that concerns a firm. Much of the established misconduct literature exclusively contends that firms are selectively punished by external observers for transgressions carried out by members that manipulate organizational operations with the intent of superficially benefiting the organization. Therefore, if I were to demonstrate that high-ranking firm

leadership could disproportionally cause negative effects for a firm without a cogent link between the individual transgression and elements of deviance at the organizational level, this study would present a new understanding of what is currently perceived as corporate misconduct.

Secondly, this paper develops a construct of executive personal misconduct by drawing from an emerging conversation within management literature that touches on organizational concerns regarding employee immoral behaviors ancillary to the operations of the organization. Previously, scholars have recognized that a changing social environment has reduced a workspace's private-public boundaries (Mayo et al., 2009), altering expectations for employee moral behavior that take place both inside and outside the workplace (Umphress et al., 2013). However, conceptual frameworks that have attempted to explain causal relationships between personal immoral character behaviors of the employee and consequences for the employer have been limited. I accordingly develop a construct that merges established frameworks: I integrate misconduct literature that has conceptualized personal misconduct as immoral indiscretion that occurs outside the workplace or is indirectly related to the operational roles of the employee, with particular characteristics of wrongdoing described in the workplace deviance literature (Bennett & Robinson, 2000; Berry, Ones, & Sackett, 2007; Friedkin, 2004; Pinto et al., 2008; Umphress et al., 2013). Additionally, due to the unique position that executives occupy in their firm and society (Hambrick & Mason, 1984; Hayward et al., 2004) and in order to develop a construct that optimally captures

the effect of individual deviant behavior on an organization, I distinctly apply this personal misconduct framework to the executive role.

Third, this research suggests that reputational effects from the focal incident may transfer to the firm. Notwithstanding the growing body of literature on negative reputational transfer between related industry parties (Jonsson et al., 2009; Paruchuri & Misangyi, 2015); in our current understanding of stigma theory, we have little knowledge regarding the impact of existential stigma within organizations and how an existential stigma transforms into an achieved stigma.² Therefore, in using the context of executive personal misconduct as a representation of an existential stigma, this dissertation also provides a greater understanding of how events that originate as an existential stigma present a threat of a stigma by association to an organization.³ Thus, this research may extend our understanding and strengthen the connection between stigma theory and corporate misconduct.

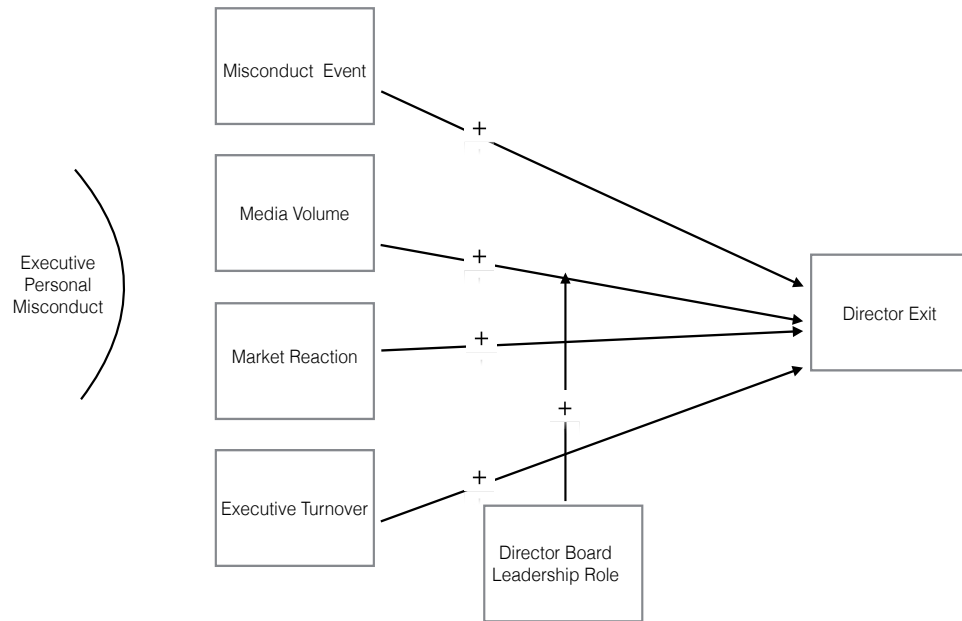
Lastly, this study will add to our knowledge of stigma and outside director exit and reputational harm. There is an assumption within the misconduct literature that higher than normal director exit primarily occurs after a negative event that thoroughly stigmatizes a firm (Pozner, 2008). In using an alternative misconduct setting, I attempt to show that a director may exit a firm in less severe crises that do not fully stigmatize the entire organization. This implication consequently elucidates that the core essence of a firm may not have to be fully stigmatized as other studies have suggested in order for director exit to occur (Arthaud-Day et al., 2006; Pozner, 2008; Srinivasan, 2005).

² Excluding board interlocks studied in Kang (2008).

³ Also known as a courtesy stigma.

The illustration of the model below (see Figure 1) highlights the study's proposed hypothesized relationships. The model tests the likelihood directors' exit after a personal misconduct event and attempts to elucidate factors that increase this likelihood. The model first illustrates that executive personal misconduct is positively associated with director exit. Along with this assertion, the model proposes that signals of stigma transformation – which indicate the existential event has spread to the firm – are likely associated with a significant increased likelihood of director exit. These signals include media volume, market reaction, and turnover of the culpable executive. Lastly, the model highlights that an individual director's leadership position on the board magnifies the extent to which he/she is affected by the event.

Figure 1: Proposed Model of Director Exit Following an Executive Personal Misconduct Event



CHAPTER II

CONCEPTUAL FRAMEWORK

Overview of Corporate Misconduct

Up to this point in the management literature, there has been a lack of a comprehensive categorization that binds the uniquely different types of corporate misconduct. Instead, conceptualization of corporate misconduct has been defined by a few boundary conditions that are featured in more commonly circulated definitions. Consequently, I develop a classification for corporate misconduct by identifying two conceptual dimensions from definitions found in previous literature.

The first part of this classification involves delineating what is and what is not regarded as misconduct. A common frame of reference in classifying transgressions as misconduct focuses on the extent to which an act violates written codes or informal norms of society or the associated organization (Ashforth et al., 2008; Deephouse & Suchman, 2008; Jonsson et al., 2009; Pozner, 2008; Suchman, 1995). Thereby, scholars generally consider misconduct as “behavior in or by an organization that a social-control agent judges to transgress a line separating right from wrong,” separating “legal, ethical, and socially responsible behavior from their antitheses” (Greve et al., 2010: 56). Within an organization, offenses that are “acts of omission or commission by individuals or groups of individuals acting in their organizational roles who violate internal rules, laws

or administrative regulations on behalf of organization goals” (Vaughn, 1999: 228) are conventionally labeled as misconduct. In summary, a fundamental tenet of corporate misconduct is that a society or organization labels the act in question a wrongdoing.

In addition to the transgression, another characteristic of corporate misconduct emphasizes the connection between the offender and the organization, in which the actor or actors who commit an indiscretion must be connected to the firm through a work commitment (e.g., employee, supplier, or contactor) (Palmer, 2012). Researchers traditionally assume that corporate misconduct involves behavior that takes place within the employment role, whether through following other’s orders or intentionally acting contrary to the firm’s specific directives or interests on the job (Vaughn, 1999). In a recent development though, the conceptual boundaries for corporate misconduct have expanded to include malicious acts by employees that reflect poor moral character. These transgressions are only tacitly related to the actor’s specific organizational role or take place outside organizational boundaries, and are therefore indirectly related to the competency of the organization (Umphress et al., 2013). As such, in recognizing these conditions, an act is considered corporate misconduct when an individual or a group that has a contractual association with the firm commits the offending transgression and internal or external constituents acknowledge the offense as a violation of norms or laws.

Traditional Types of Macro-Level Corporate Misconduct

Scholars have investigated various types of corporate transgressions that fall under the context of corporate misconduct, including actions that are both legal and

illegal, violate social norms, and are harmful and morally objectionable. Within this realm, the three foremost forms of corporate misconduct found in the management literature are 1) illegal corporate behaviors, 2) financial misconduct, and 3) organizational operational misconduct.

The first type of misconduct discussed is illegal corporate behaviors. Illegal corporate behaviors are defined as “unlawful activities of members or agents of a firm, engaged in primarily for the firm's benefit” (Baucus & Baucus, 1997:129). These activities include all convictable illegal actions, such as antitrust violations, product liability and punitive damages, intentional patent infringement, securities fraud, and environmental violations (Baucus & Baucus, 1997; Baucus & Near, 1991; Daboub, Rasheed, Priem, & Gray, 1995; Mishina, Dykes, Block, & Pollock, 2010; Schnatterly, 2003; Szwajkowski, 1985).

Corporate illegality is distinctive because it specifically breaks the law and is considered to directly benefit the firm instead of directly benefiting the individuals committing the act (Mishina et al., 2010). For example, a recognized scenario of corporate illegality would include a CEO that falsifies product safety records in order to deceive government regulators. This undertaking is a form of corporate illegality because it is against the law and is intended to primarily benefit firm performance, which then could also benefit the individual (Mishina et al., 2010; Pinto et al., 2008). Researchers have studied illegal corporate behavior on a variety of firm contexts that occur within various parts of firm production. As such, this term is used broadly to capture a variety of illegal misconduct incidents.

Nevertheless, other researchers examine misconduct that takes place in specific parts of firm production, where in certain instances the misconduct is considered illegal yet the nature of the misconduct activity is not in itself an illegal act. In the next sections I discuss these types of misconduct.

A second type of corporate impropriety involves financial misconduct, which encompasses investor fallaciousness via misreporting key financial documents or engaging in deceitful financial practices that are deemed unprofessional or illegal (Arthaud-Day et al., 2006; Desai, Hogan, & Wilkins, 2006; Harris & Bromiley, 2007; Karpoff, Lee, & Martin, 2008a; Moore et al, 2010; Srinivasan, 2005). Financial misconduct represents transgressions that are intended to deceive shareholders/stakeholders and can directly jeopardize the fiscal integrity of the firm (Arthaud-Day et al., 2006; Paruchuri & Misangyi, 2015). It may also represent a type of illegal activity or may be considered a lesser offense, because the transgression is simply unethical. Thus, while financial misconduct may overlap with illegal corporate behavior, it is also important to recognize this type of transgression as a separate subset, for in many instances the misdeed is unethical rather than exclusively unlawful behavior as specified in an illegal corporate behavior designation (Harris & Bromiley, 2007; O'Connor, Priem, Coombs, & Gilley, 2006).⁴

This form of misconduct is typically measured by looking at a firm's financial restatements, which is a revision of previous incorrectly reported public firm financial statements (Cowen & Marcel, 2011; Ndofor, Wesley, & Priem, in press). A restatement

⁴ An illegal corporate behavior designation is a violation of professional ethical norms.

is compulsory when an auditor or government agency determines that the previous statement contains inaccurate information (Srinivasan, 2005). A restatement can be considered an illegal act of fraud prosecuted by the U.S. government, or may be an accounting error that violates accepted professional practices. In both scenarios, the restatement paints the firm's governance practices in a negative light and can cause severe reputational penalties to the firm (Palmrose, Richardson, & Scholz, 2004). Recently, two other financial practices have been found to violate professional norms and cause reputational penalties for a firm. These financial practices include stock option backdating – the procedure of manipulating stock option grant dates – as well as the inappropriate use of stock option expensing, an accounting method for the value of share options. At times, external agents have viewed both of these practices as deceitful to investors (Carberry & King, 2012; Wiersema & Zhang, 2013).

The last kind of corporate misconduct is organizational operational misconduct. This type of misconduct concerns a violation of norms, which occurs in the process of conducting business operations and may take place in any part of the value chain (Alexander, 1999; Jarrell & Peltzman 1985; Mitchell & Maloney 1989; Peltzman, 1981). Organizational operational misconduct can include activities that social control agent's judge as a violation of norms, and civil penalties can be levied, but the alleged violation is not deemed as illegal.

Operational misconduct also applies to circumstances that include defective products (Jarrell & Peltzman, 1985), safety violations (Mitchell & Maloney 1989), misleading advertisement (Peltzman, 1981), contract violations (Alexander, 1999), and

substandard environmental and labor practices (Roehm & Tybout, 2006). An example of operational misconduct is the 2005 Nike scandal, which revealed that its suppliers used underage labor in the assembly of Nike products. Although Nike was not convicted of a crime, the company still suffered tremendous reputational penalties due to the depictions of the situation, for social control agents, including members of the media and special interest coalitions that enforce social norms, rendered stiff judgment (Roehm & Tybout, 2006).

Conceptualizing Executive Personal Misconduct

While the misconduct literature is noted to be expansive, there is a unique type of wrongdoing affecting companies at a higher rate that was largely overlooked in the management literature until recently. This particular type of corporate misconduct is known as executive personal misconduct, and is a distinct type of corporate misconduct that centers on the personal character indiscretions of a member of the firm's leadership (Lin, 2008). This type of misconduct has gained greater relevancy over the last twenty years due to a change in workplace boundaries and the increased transparency of private enterprise to the general public. Thus, conceptual development on this sort of misconduct is increasingly pertinent due to recent changes in how executives are viewed in society (Hayward et al., 2004; Rindova, Pollock, & Hayward, 2006; Umphress et al., 2013). Therefore, drawing from several existing misconduct frameworks, the dissertation develops a conceptualization of executive personal misconduct.

The offending executive, or beneficiary, is an integral part of a personal misconduct event. In their categorization of corporate wrongdoing, Pinto et al. (2008) distinguish the actor or party as the primary beneficiary of the act. These scholars conceptualize a personal misconduct as an act that takes place within the organization – where the beneficiary of the indiscretion receives an individual private gain that does not benefit the organization as well. Importantly, based on the notion that harm may befall an organization for employee behavior that is peripherally related to the operations of the organization, Umphress et al. (2013) extends the notion of a private gain to non-monetary immoral character transgressions. They posit that a private benefit from a transgression may include improper social behavior (rather than monetary gain) that is not directed at the organization. Therefore, according to Umphress et al. (2013), a personal transgression may occur without the organization serving as the direct target of the act and the private gain experienced may take a variety of forms.

Another aspect of executive personal misconduct is the location of the act and its relation to the operational process within an organization. Umphress et al. (2013) further emphasizes that personal acts may take place outside organizational boundaries and can be unrelated to the employee's operational role within the company.⁵ Misconduct outside organizational boundaries is characterized as both nonwork and related nonwork behaviors, which are viewed as employee behaviors that are either unrelated to or indirectly related to their operational role within the organization, and are not part of the organization's functional operations (Umphress et al., 2013). Stemming from the extent

⁵ Weisenfeld et al. (2008) also characterizes executive misbehavior outside the firm as extrafirm misdeeds.

the indiscretion is related to the employee's job responsibilities, nonwork behaviors include destructive behaviors and compromising behaviors. Destructive nonwork behaviors are described as unfavorably viewed actions that are tacitly relevant to the employee's job responsibilities and are outside the operational scope of the organization. Compromising behaviors are devalued acts that run counter to the values of the organization and are unrelated to the employee's job role.

Taken together, this research conceptualizes personal misconduct transgressions as immoral character acts that are carried out for personal benefit, which are not necessarily related to the competency of the firm because the act is only tangentially related to the employee's operational role within a company, and may even take place outside organizational boundaries. Building on previous research, in the following section I integrate core concepts of personal misconduct found in Pinto et al. (2008) and Umphress et al. (2013) to further conceptualize this distinct form of personal misconduct titled executive personal misconduct.

Dimensions of Executive Personal Misconduct

Umphress et al. (2013) suggests personal misconduct is similar to other forms of misconduct because the misconduct occurs when an indiscretion by an actor related to the firm is judged to transgress moral codes, laws, or norms of an organization or society (Greve et al., 2010; Pozner, 2008). Additionally, analogous to other forms of corporate misconduct, personal misconduct may also perniciously represent a threat to shareholder value (Umphress et al., 2013). However, based on the conceptualization of the 1)

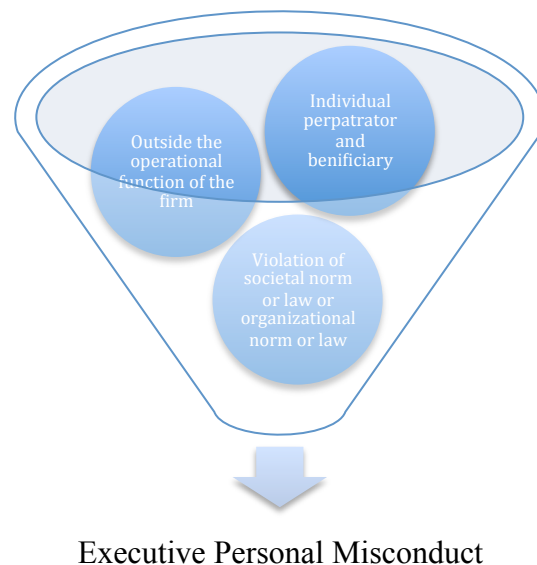
conduct's beneficiary, 2) setting of the act, 3) recipient of harm, and 4) position of the individual actor within the company, executive personal misconduct is distinguishable from others forms of corporate misconduct which are primarily centered on the competency of the firm.

Executive personal misconduct is distinguishable for these four main properties. The first property of executive personal misconduct asserts that the exclusive beneficiary of the incident is the individual, as the action is meant to gain a direct or existential personal benefit (Engelen, 2011; Pinto et al., 2008). The second property integrates locational aspects of Pinto et al. (2008) and Umphress et al. (2013) to suggest a personal transgression that is tangentially related to an employee's operational role can take place inside the organization, or outside organizational boundaries. Thus, executive personal misconduct is not limited to boundaries of the workplace, and need not be directly related to the executive's operational job function. Third, borrowing from Umphress et al. (2013), in executive personal misconduct, the intended recipient or target of the misconduct is unrelated to a firm's operations or resources. Therefore, the recipient is either unrelated to the company or encompasses an interpersonal infraction or rule violation that is not meant to inflict harm on the entirety of the organization.⁶ The last property of executive personal misconduct is that the offense is perpetrated by an individual who is involved in the firm's key functions, and may be a recognizable face of the organization, such as a high ranking executive (e.g., Hambrick & Mason, 1984; Hayward et al., 2004). Such positions include the CEO, CFO, any member of the TMT

⁶ While Umphress et al. (2013) recognizes that much of the personal misdeeds are done without the intent of organizational harm they also cite misbehavior that is directed at the organization.

(Finkelstein & Hambrick, 1990), as well as former chief executives and founders that sit on the Board of Directors (Quigley & Hambrick, 2012). Figure 2 provides a synopsis of the main characteristics that represent executive personal misconduct.

Figure 2: Characteristics of Executive Personal Misconduct



Differences Between Executive Personal Misconduct and Other Forms of Misconduct

There are stark differences between executive personal misconduct and traditional forms of corporate misconduct. First, the beneficiary of executive personal misconduct is the individual instead of the firm. Thus, many of the studies that examine

financial fraud would not include this definition of personal misconduct, as the benefactor of the misconduct is the firm (Mishina et al., 2010). Second, in contrast to all other forms of corporate misconduct, personal misconduct is not directly connected with the executives' operational roles within the organization, which means that the misconduct falls outside the direct responsibilities of the executive's role within the firm and is indirect to the competency of the firm's operations (Palmer, 2012; Vaughan, 1999). Third, executive personal misconduct can occur within or outside the boundaries of the firm (Umpress et al., 2013). Other types of misconduct investigated within the management literature strictly occur within the nexus of the firm environment. Lastly, an executive personal misconduct event does not involve a serious theft of firm resources. Any abuse of firm resources is of a nominal amount and does not jeopardize the firm's financial health. Other corporate misconduct events, specifically financial misconduct, often involve the manipulation and risk of firm resources. Table 1 further explains detailed differences between executive personal misconduct and other types of corporate misconduct.

Table 1: Types of Corporate Misconduct

	Illegal Behavior	Financial Misconduct	Operational Misconduct	Executive Personal Misconduct
Beneficiary	Firm	Firm	Firm or Contractually Related Organization	Individual
Scope of Activities	Any intentional or unintentional illegal activity that occurred in the process of firm production	An activity that is related to a firm's financial matters that has misled the investor class	Any activity within a firm's value chain that violates group or social norms and is perpetuated by the firm or an entity contracted by the firm	An activity that takes place outside the operational responsibilities of the executive and can occur internally or externally
Perpetrator	Any employee or employees related to the firm	The executive, TMT, internal or external auditor	Any employee or employees or contractor	A high ranking executive

Types of Executive Personal Misconduct Transgressions

Four categories of wrongdoing that are found within the deviance literature are used to characterize an executive personal misconduct transgression. The types of executive personal misconduct transgressions discussed commensurate with inappropriate compromising behaviors and destructive behaviors identified by Umphress et al. (2013) – as well as conditions for personal misconduct established by Pinto et al. (2008). These four kinds of transgressions may overlap or be interrelated.

The first type of indiscretion discussed is labeled interpersonal deviance, which is a detrimental behavior targeted towards individuals (e.g., aggression, lying, and inappropriate sexual behavior) (Bennett & Robinson, 2000; Berry et al., 2007; Robinson & Bennett, 1995). This type of behavior includes inappropriate social interactions with employees of the company, key stakeholders that are associated with the organization, and individuals unrelated to the firm (Umphress et al., 2013).

The next type of executive personal misconduct infraction involves organizational deviance transgressions, which are the misuse of firm resources in a manner that violates a code of ethics, and in circumstances that involve a personal misconduct infraction; this behavior does not maliciously target firm operations (Robinson & Bennett, 1995). Much of the organizational deviance literature has focused on behaviors that maliciously target the organization, which are subsequently not personal misconduct – including intentionally working slowly, damaging company property, sharing confidential company information, and theft (Bennett & Robinson, 2000; Berry et al., 2007). Executive personal misconduct is thus concerned with another aspect of organizational deviance that is not planned to damage the operations of the firm or engender a significant theft to a firm's financial resources. Instances of this type of organizational deviance involve individuals that misuse company resources in an improper manner for their own benefit without purposely harming the firm (Wood, Schmidtke, & Decker, 2007). For example, a scandal erupted when the CEO of a major bank was caught watching pornographic materials in his office (Byrne, 2004). This personal misconduct incident is typified as a form of organizational deviance because he

violated the norms of the organization by misusing company resources, but the transgression was committed with the intention of satisfying a personal desire rather than operationally and financially harming the firm and its shareholders.

The third type of executive personal indiscretion identified is associated with informal social deviance, whereby the individual behavior deviates from socially established and cherished norms of a particular group (Friedkin, 2004; Kitsuse & Spector, 1973). Incidents associated with informal social deviance include donations and support for unpopular political or social causes, or offensive speech and lewd behavior. In these types of behaviors, the normative compliance within a given group determines the extent to which the act violates the in-group values (Friedkin, 2004).

Lastly, the final type of executive personal misconduct transgression is characterized by a variety of illegal activities that are undertaken for private benefit (e.g., drug and alcohol abuse) (Umphress et al., 2013). These illegal activities may also be carried out intentionally or by accident, take place in or outside the firm, and violate the rules of law in a given area. Although the four types of transgressions are unique, similar to other types of corporate misconduct, they may engender negative stigmatizing reputational sentiment.

The Relationship between Stigma Theory and Corporate Misconduct

Scholars evaluating consequences for corporate misconduct have commonly used stigma theory in order to explain how an event results in applicable penalties. Stigma is frequently discussed as a negative repercussion stemming from undesirable

characteristics or actions. In the micro focused literature (i.e., psychology, sociology, organizational behavior) stigma describes negative reactions that are a response to individual conduct or attributes, such as criminal behavior, mental illness, physical deformity or handicap, and relationship to a discredited ethnic or minority group (e.g., Link & Phelan, 2001).

In contrast to individual-level stigma that some management scholars believe has been tediously discussed (e.g., Devers et al., 2009), recently, researchers have started to use the term stigma when describing reputational penalties in organizational contexts (Devers et al., 2009; Greve et al., 2010; Mishina, & Devers, 2012; Pozner, 2008). Within the scope of the strategic management literature, stigma is studied as a byproduct of misconduct and organizational failure (Devers et al., 2009; Greve et al., 2010). Wherein, social control agents decide the degree of the transgression and levy punishment in accordance with the infraction. Therefore, the misconduct triggers a resulting stigma.

An Overview of Stigma Theory

Stigma theory has transcended from an individualistic theory primarily found in psychology and sociology literatures to describe a social pariah (Mishina & Devers, 2012), to a ubiquitous theory used across different research spectrums (Paetzold, Dipboye, & Elsbach, 2008). While stigma theory originates in the writings of French sociologist Émile Durkheim, the proliferation of stigma research can be traced to the seminal work by Erving Goffman's 1963 book entitled *Stigma: Notes on the*

Management of Spoiled Identity. Goffman established the foundational components for future stigma research by developing both a definition of stigma and articulating conditions that lead to stigma. Goffman (1963: 3) defines stigma as an “attribute that is deeply discrediting” and reduces the bearer “from a whole and usual person to a tainted, discounted one.” Stigma is thus characterized as a reputational stain derived from socially discredited characteristics, conduct, or associations.

Goffman also outlines particular stigma-bearing conditions, such as abominations of the body (e.g., physical deformities, illnesses, and deviation of personal traits such as mental illness), tribal stigma which devaluates group members based on their association with a tainted group (e.g., race, religion, and gender), and marks of individual character (e.g., conduct stigma) caused by acts that violate norms and values (Ashforth & Kreiner, 1999; Devers et al., 2009). For this study though, I exclusively discuss conduct stigma, which is the product of an actor engaging in an act that violates legal or societal norms (Hudson, 2008; Semadeni et al., 2008).

Stigma in Organizations

Misconduct at the executive or firm level is a catalyst for organizational stigma (Pozner, 2008). Firm misconduct that transgresses socially acceptable boundaries that produce stigma, commonly includes product recalls (Rhee & Haunschild, 2006), financial fraud (Harris & Bromiley, 2007; Kang, 2008; Srinivasan, 2005), corporate illegality (Baucus & Baucus, 1997; Mishina et al., 2010), financial crises and scandals

(Jensen, 2006; Jonsson et al., 2009; Semadeni et al., 2008; Sutton & Callahan, 1987), and industries whose core market is perceived negatively (e.g., tobacco, firearms industry, and pornography) (Durand & Vergne, in press; Hudson, 2008; Hudson & Okhuysen, 2008; Vergne, 2012). In the contexts of the firm, management researchers have portrayed stigma as an attribute within the organization that is deeply discrediting to the firm and its members (Sutton & Callahan, 1987).

Lately, researchers have presented definitions of stigma that are explicitly organizational-level in nature (Paetzold et al., 2008). In an organizational stigma, social change agents “who are entities that can make reasonable claims to represent the interests of broad communities of actors, and have capacity to monitor and enforce organizational behavior,” delineate abnormal stigma bearing conditions (Greve et al., 2010: 78). Therefore, based on judgments from stakeholders, Devers and colleagues (2009: 157) further define organizational-level stigma as “a label that evokes a collective stakeholder group-specific perception that an organization possesses a fundamental, deep-seated flaw that de-individuates and discredits the organization.”

Organizational stigma is thus a result of violations of hyper-norms that signal a dysfunction within organizational systems (Pozner, 2008). Moreover, the stigma – not necessarily the action – permeates throughout every aspect of the organization’s structure, and is not isolated to a specific department within an organization. Instead, the stigma pervades to such a magnitude that the organization is viewed as counter to the values of important stakeholder groups (Devers et al., 2009). Therefore, although organizational stigma is based on “fundamental, deep-seated flaws” similar to individual

stigmas, these flaws surpass a single individual, and are considered to give a negative perception about the organization (Devers et al., 2009).

Further, Hudson (2008) suggests that organizational-level stigmas may arise as two types of stigma, event stigmas and core stigmas. Event stigmas are “discrete, anomalous, episodic” events (Hudson, 2008: 253), such as bankruptcy (Semadeni et al., 2008; Sutton & Callahan, 1987), financial misconduct (Harris & Bromiley, 2007; Kang, 2008; Mishina et al., 2010; Moore et al., 2010), accidents (Hoffman & Ocasio, 2001), and product defects (Ginzel, Kramer, & Sutton, 1992). Core stigmas are based on the “nature of the organization’s core attributes—who it is, what it does, and whom it serves” (Hudson, 2008: 253). Examples of core-stigmatized firms include men's bathhouses (Hudson & Okhuysen, 2003), tobacco companies, weapons industries, and professional wrestling associations (Helms & Patterson, 2013), where the very nature of the commercial transaction is considered immoral and stigmatized by influential elements within a given society (Hudson, 2008).

A common attribute for both event stigma and core stigma firms is the organization involved faces reputational consequences because they are perceived as untrustworthy; as a result, they are unable to sustain consistent patterns of social interaction with key stakeholders (Pozner, 2008).

Stigma and Consequences for Misconduct

While the onset of a stigma occurs with an act, an initial act of deviance alone does not cause stigmatization (Mishina & Devers, 2012). As Kitsuse (1962: 255) states,

“the critical feature of the deviant-defining process is not the behavior of individuals who are defined as deviants, but rather the interpretations others make of their behaviors, whatever those behaviors may be.” As such, stigmatization actually begins after the act when the transgression is disseminated to stakeholder groups (Barnett, 2014; Carberry & King, 2012; Link & Phelan, 2001). In this stage of the process, stakeholders judge what is acceptable versus unacceptable (i.e., labeling), essentially defining what is or is not a stigma-producing transgression (Sitkin & Roth, 1993).

Stakeholder distinguishment of what is right or wrong is more dynamic than static, as particular boundary conditions change according to circumstance, and varies across societies and time (Crocker et al., 1998; Jones et al., 1984; Link & Phelan, 2001; Major & O’Brien, 2005). Stakeholders who function as social-control agents enforce ethical principles that differentiate transgressions and acts of deviance. These entities can take the form of formal organizations, such as governments, or informal groups such as the media (Wiersema & Zhang, 2013).

When these social change agents view a firm as diverging from competent behavior, it may create a conduct stigma that causes firm legitimacy and reputation to suffer as a result (Bitektine, 2011; Desai, 2011; Suchman, 1995). Firm reputation is carefully constructed by sending signals that are designed to meet the expectations of multiple stakeholders, and a prominent factor in shaping firm reputation with stakeholders is the deeds of the firm (e.g., Deephouse, 2000; Fombrun & Shanley, 1990; Lange, Lee, & Dai, 2011; Shamsie, 2003; Weigelt & Camerer, 1988).

A misconduct event, which is represented in much of the literature as an operational form of misconduct (Harris & Bromiley, 2007; Kang, 2008; Moore et al., 2010; Paruchuri & Misangyi, 2015; Srinivasan, 2005) is seen as engendering negative reputational assessments by social change agents who view the event as part of a general competency organizational concern. When this process emerges, the operational well-being of the firm is often negatively affected (Alexander, 1999; Frooman, 1997; Karpoff & Lott, 1993; Palmrose et al., 2004). For instance, Feroz, Park, and Pastena (1991) conveyed that the initial press disclosures of financial reporting violations caused a 13 percent decline in stocks for misconduct firms. Additionally, financial penalties for a misconduct event can be experienced even three to five years later than the initial event (Baucus & Baucus, 1997). Moreover, beyond financial and reputational implications stemming from the misconduct, a firm may also experience decline in its social network; partly because other firms are concerned the misconduct will affect them as well (Jonsson et al., 2009; Kang, 2008; Paruchuri & Misangyi, 2015). Importantly, these negative reputational penalties taint the firm engaging in misconduct beyond the initial event and generally propagate an image of organizational incompetency.

Stigma Transfer to Firm Leadership

Corporate misconduct often evokes a process among intermediates and arbitrators that evaluates culpability for individuals involved in the indiscretion, and the organizational failures that made such act permissible (Wiesenfeld et al., 2008). When social change agents, such as informal institutions and formal institutions, label the act

as deviant (e.g., Greve et al., 2010), an attribution process may intentionally associate the transgression to the core essence of a firm. Whether perpetuated by an individual, a contractually related group, or elements within a firm, this stigma-by-association transfers perception of the negative act from the culpable party to the firm (Kang, 2008).

In the aftermath of an executive personal misconduct transgression, the culpable executive is often linked to the firm, and since the executive may be the embodiment of the public perception of the firm (e.g., Hambrick & Mason, 1984; Hayward et al., 2004), the transgression is associated with the firm itself. In fact, Sutton and Callahan (1987: 406) note, "images of organizations and their leaders are intertwined." Thus, stakeholders who feel that the act violates moral and ethical norms may attribute and associate the deviant act with the firm (Adut, 2005; Barnett, 2014; Jonsson et al., 2009; Kelly & Michela, 1980).

However, implications for misconduct and subsequent reputational loss spread beyond merely negative consequences at the firm level. The misconduct event also instigates a search by firm stakeholders that in effect attribute the misconduct and any consequences brought about by the focal misconduct to firm leaders (Wiesenfeld et al., 2008). This form of attribution is part of the stigma process also known as "singling out," which commonly features accusations by stakeholders connecting the deviant act to culpable leaders (Greve et al., 2010; Wiesenfeld et al., 2008).

This notion of stigma transfer can be traced to Goffman who termed this a courtesy stigma, which occurs because people connected to the stigmatized are "all obliged to share some of the discredit of the stigmatized person to whom they are

related” (Goffman, 1963: 43). Thus, this secondary stigma transpires when a stigma is transferred from the focal actor to related parties (Paruchuri & Misangyi, 2015; Wiesenfeld et al., 2008), and as a result, the associated party will suffer similar consequences as the stigmatized focal actor (Jonsson et al., 2009; Kang, 2008; Moore et al., 2010; Semadeni et al., 2008).

The stigma of the misconduct and ensuing reputational failures are passed to leaders that are attributed (rightly or wrongly) with the event. As a result, the career prospects of firm leadership might be diminished (Arthaud-Day et al., 2006; Karpoff et al., 2008a; Moore et al., 2010; Wiesenfeld et al., 2008). In such circumstances, following corporate misconduct, executives experience job loss, face civil and criminal penalties, and endure career depreciation as a result of the misconduct (Cannella, Fraser, & Lee, 1995; Desai et al., 2006; Gangloff et al., in press; Karpoff, Lee, & Martin, 2008b; Srinivasan, 2005; Wiersema & Zhang, 2013).⁷

These internal labor market penalties are aggrandized when both financial penalties and criminal penalties are more severe, with upwards of 93 percent of executives experiencing turnover within 24 months following government investigation of a financial restatement (Karpoff et al., 2008b). Moreover, many of the executives that are involved in corporate misconduct also face external labor market penalties (Arthaud-Day et al., 2006). These individuals encounter career diminution after the initial job loss, as they are rarely able to obtain an equivalent position within a market leading company (Karpoff et al., 2008b; Semadeni et al., 2008; Wiesenfeld et al., 2008).

⁷ The majority of executives in firms with a restatement lose their position within 24 months (Desai, Hogan, & Wilkins, 2006).

Executive Personal Misconduct and Stigma Transfer to the Board

In addition to executives, outside directors are also consequently fired or voluntarily leave a firm following a corporate misconduct event (Karpoff & Lott, 1993; Marcel & Cowen, 2014; Moore et al., 2010; Semadeni et al., 2008; Srinivasan, 2005). After corporate misconduct, outside directors can experience turnover (e.g., Cowen & Marcel, 2011; Marcel & Cowen, 2014; Srinivasan, 2005), especially if they are responsible with overseeing the area related to the misconduct (Arthaud-Day et al., 2006). Further, some outside directors may experience external labor market penalties; research has shown following corporate misconduct that outside directors may lose board seats in other firms, and suffer an overall decline in the numbers of boards served following a misconduct event (Fich & Shivdasani, 2007; Moore et al., 2010; Pozner, 2008). Because high-ranking officials represent the firm, behaviors that present the firm in an unfavorable light to observers send a signal that these officials have performed poorly in their oversight and decision-making responsibilities.

Although executive personal misconduct is distinct, in that operations of the firm are not fouled and the violation involves a moral character infraction, stakeholders might still attribute elements of the negative personal event with a lapse in competency within a firm's higher leadership. Due to the perception that organizational elites have inside knowledge and control that enable them to prevent events that damage the firm, observers tend to accredit a firm's key decision makers with errant behavior by or within a firm (Semadeni et al., 2008). As such, an executive personal misconduct event may create a perception that something is wrong with the firm and cast doubt on those

individuals who are tasked with monitoring and judging executive behavior, such as the board of directors.

Therefore, stigma from the initial personal misconduct event is subsequently transferred and transformed in two interconnected ways. First, although the personal misconduct event is not independently attributable to the organization and is not a direct result of actions by the organization, if the board of directors is blamed or perceive fault for the personal misconduct event, it would signal a stigma transfer and transformation. While stigma from the focal event is originally cast upon the perpetrator, because of the executive's relational connection to the firm, the stigma spreads to actors that are operationally responsible for the executive, even though they are unrelated to the initial stigmatizing transgression. Thus, the existential stigma of the focal event is transformed and transferred into an achieved stigma.

Second, the misconduct is transformed from a character indiscretion into a competency indiscretion. The initial personal misconduct event is primarily a violation of ethical standards that reflect poor character but is separate from firm operations. However, stigma transfer to the firm and any responsible firm actors indicates concerns originating from the initial infraction have augmented towards general concerns about the character, competency, and judgment of firm leadership. This therefore increases the likelihood of outside director exit.

Figure 3: Executive Personal Misconduct Stigma Process



Stigma and Director Exit

Figure 3 illustrates the process that leads to director exit. The figure suggests in the aftermath of misconduct a fear of becoming stigmatized induces a process that prompts reprisals and self-protection in order to preserve the image and reputation of the organization or its members (Pozner, 2008; Wiesenfeld et al., 2008). However, within the management literature there are two contrasting perspectives regarding stigma and director exit (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Marcel & Cowen, 2014; Pozner, 2008; Srinivasan, 2005).

The first perspective is entitled “ex-post settling up,” which occurs after the wrongdoing, wherein consequences are transferred to individuals through signaling (Fama, 1980; Fama & Jensen, 1983; Greve et al., 2010). This view asserts that as a response to actual or potential social and economic sanctions, organizations assign blame to select individuals, including board members, in the hope such actions will deflect negative reactions from stakeholders and help either repair or maintain a positive

reputation (Greve et al., 2010; Mishina & Devers, 2012; Pozner, 2008; Suchman, 1995; Wiesenfeld et al., 2008).

Because organizational leaders are viewed as possessing superior knowledge of the firm's activities and are the formal decision-making authority, they are thought to foresee behaviors and determine organizational actions. At the board level, this ex-post settling up process occurs when the firm "cleans house" (i.e., Marcel & Cowen, 2014) – the firm dismisses board members that are perceived as the most responsible for the governance failure (Greve et al., 2010; Pozner, 2008; Srinivasan, 2005; Wiersema & Zhang, 2013). The replacement of directors is noted as particularly useful in conveying penitence and organizational change to stakeholders because external audiences closely associate directors with monitoring responsibilities (Greve et al., 2010; Kang, 2008; Marcel & Cowen, 2014; Pozner, 2008).

An alternative perspective on outside director exit posits that when an organization appears tainted, a fear of stigma by association causes organizational stakeholders to distance themselves in order to protect their identity from being spoiled (Blascovich et al., 2001; Jensen, 2006; Major & O'Brien, 2005; Marcel & Cowen, 2014). Individualized responses to a director's corporate misconduct may therefore comprise behavior geared towards self-preservation. Pozner notes that "the potentially damaging effects of interacting with stigmatized others motivates the untainted to minimize contact, or even to sever ties, with stigmatized actors" (2008: 144).

It is for this reason that scholars have suggested that outside directors may "jump ship" following corporate misconduct (D'Aveni, 1990; Semadeni et al., 2008), and

proactively leave an organization in order to limit personal exposure from the transgression and protect their personal reputation. An outside director is motivated to serve on a company's board because such service provides ceremonious benefits to the individual, such as an endorsement of the person's quality (Boivie et al., 2012; Sanders & Boivie, 2004). However, "when deciding whether or not to continue their board service, directors want to avoid being tainted by their association with firms that have engaged in illegitimate actions (Boivie et al., 2012: 1341)."

Nevertheless, while many scholars have documented director exit following misconduct (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Fahlenbrach et al., 2010; Gangloff et al., in press; Marcel & Cowen, 2014; Moore et al., 2010; Srinivasan, 2005), evidence that successfully differentiates director exit between the two perspectives has been mixed. With the exception of Marcel and Cowen (2014), up to this point, the literature has been largely unsuccessful in parsing the highly ambiguous voluntary versus involuntary director exit phenomena. Therefore, besides discussing these perspectives, I do not attempt to empirically distinguish between the two, and instead integrate both perspectives into my arguments. In the following section, I outline hypotheses that will provide a better understanding of personal misconduct, director exit, and firm attributes which signal stigma transfer that increase the likelihood of outside director exit in misconduct firms.

CHAPTER III

HYPOTHESES

While outside directors are noted to exit a firm following various types of corporate misconduct (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Marcel & Cowen, 2014; Moore et al., 2010; Pozner, 2008; Srinivasan, 2005), the extent to which outside directors exit following less severe forms of misconduct tangential to firm operations is underexplored. Since director responsibilities include hiring, firing, and monitoring of management (e.g., Dalton, Hitt, Certo, & Dalton, 2007), indiscretions by an executive – even ones related to his or her character that are unrelated to firm operations – may still instigate an increased preponderance for directors to exit a misconduct firm.

An executive personal misconduct incident may engender heightened scrutiny of the board of directors. Since the directors' primary job is to select competent executives and monitor his or her performance, the directors may receive part of the blame for the misconduct (Arthaud-Day et al., 2006; Kang, 2008). For instance, the selection of a “bad apple” may create questions concerning the manner and depth of the hiring process. Because directors are integral in hiring, they may receive blame for ignoring, overlooking, or accepting an individual that possesses negative character flaws (Gomulya & Boeker, in press; Zajac & Westphal, 1996).

Moreover, outside directors are also expected to keenly monitor management for unacceptable behavior (Dalton et al., 2007). Therefore, the occurrence of a personal misconduct incident may create a perception that the board was “asleep at the wheel.” For instance, the board may have noticed such bad behavior, which was not reported, addressed, or stopped. Such was the noted circumstance revealed after personal misconduct transgressions at Best Buy and U.S. Airways. At Best Buy, certain board members were aware of an improper sexual relationship by the CEO and failed to disclose this information to the rest of the board. Similarly, the U.S. Airways board failed to report their CEO’s DUI arrest to investors. Investors expressed their dissatisfaction when the board finally shared information regarding the first arrest, after the CEO received a second DUI arrest.

Or worse, the board may even have condoned the bad behavior and accepted either immoral individual behavior or a larger organizational cultural problem of immoral behaviors (Pinto et al., 2008).⁸ Further, the board may have simply not observed the behavior, which may be innocuous unless the personal misconduct should have been categorically evident to those who surround the individual. Regardless of the specific scenario, it is entirely possible that outside directors are held accountable and their competency is questioned for adverse personal behavior of management.

On the other hand, outside directors may decide to exit a negative situation in order to preserve an image of outstanding character and to deflect a blemish that calls

⁸ This scenario occurred at Astra Inc. and related to the public transgressions of Astra President and Chief Executive Officer Lars Bildman.

their overall competency into question (Bovie et al., 2012). They may wish to simply avoid a tarnished executive who may besmirch the entire organization, including individuals closely associated with the bad actor (Kang, 2008). Therefore, a director may decide it is best to avoid the tarnished executive and signal disapproval of the behavior, rather than embrace the denigrated individual and the organization with which they are associated (Gomulya & Boeker, in press). Thus, the director consciously decides that the executive's character indiscretion might spill over to how the individual director is viewed personally and professionally.

Moreover, as the behavior of the executive may be tied to larger elements of a dysfunctional organizational culture, the director may decide to sever ties with the firm before things worsen and the immoral character behavior seeps into larger operational problems or becomes criminal behavior. Pinto et al. (2008) takes note of this circumstance when discussing the idea of corrupt organizations versus corrupt individuals. For instance, the unethical executive might be part of a larger symptom of an immoral culture at the organization; after exposure of a particular event, the executive could exit to avoid further future penalty that would undermine his or her reputational standing.

Lastly, whether or not blame is actually placed on the outside director, or the director was in a position to avoid or alter improper behavior, the director may personally feel a perception of failure (Wiesenfeld et al., 2008). The director may discern that he or she should have noticed or stopped the misbehavior, and failure to do so represents a corporate governance failure. A wider group of stakeholders may also

believe that the board was in a position to avoid the problem and did not act to do so. In this scenario, the director may decide to exit in order to avoid perceived blame, even if none is actually placed. Therefore, these arguments suggest the following hypothesis:

Hypothesis 1: *Following revelation of an executive personal misconduct incident, an outside director from a misconduct firm as compared to a non-misconduct firm is significantly related to director exit.*

Signals of Stigmatization and the Likelihood of Director Exit

As previously discussed, elements of the stigmatization process often contain negative signals, or signals of stigma, that may support a shift in blame from the original existential stigma event towards actors inside the firm. Signals of stigma may engender concern in key stakeholders who fear the incident will harm the firm's reputation, as well as their own personal reputation (Jones et al., 1984). Therefore, organizational reputational penalties often initiate a search for blame among firm stakeholders that attribute reputational threats or loss to firm leaders (Wiesenfeld et al., 2008).

Even if the firm is not fully stigmatized, which could be the circumstance in most types of corporate misconduct, elements of the stigmatization process often contain certain visible negative signals that the firm is suffering as a result of the misconduct. After an executive personal misconduct, these signals may indicate judgment among stakeholders regarding the competency of the firm, and specifically, that the governance

of the firm is compromised. Because organizational leaders often fear stigma by association (e.g., Wiesenfeld et al., 2008), when confronted with visible signs of reputational challenges that insinuate possible stigmatization, organizational elites in an act of self-preservation may place some of the blame on the board of directors, or as well, certain directors may distance themselves from the tainted firm (Marcel & Cowen, 2014; Semadeni et al., 2008).

Therefore, while the executive personal misconduct act in itself may trigger concern among outside directors, it is also likely that when the operational well-being of the firm suffers in the aftermath of an executive personal misconduct, there is an enhanced concern of stigma transfer among directors of the focal misconduct firm (Alexander, 1999; Frooman, 1997; Karpoff & Lott, 1993; Palmrose et al., 2004).

The Impact of Media Attention

The media can be important in various stages of the stigmatization process (Cohen, 2002; Hunt, 1997; Pontikes, Negro, & Rao, 2010; Reuber & Fischer, 2010). The spread of news about a particular misconduct, including personal misconduct, makes what was private information and even solely personal information, public knowledge. This process increases the volume of informed stakeholders to judge this information, and in certain circumstances, causes unease among corporate elites who were not part of the misconduct yet fear the media creates a stigma by association (Greve et al., 2010; Umphress et al., 2013).

The media serves a role in most societies as a communication intermediary and is generally considered a credible source of material from which the majority of people receive information (Rhee & Valdez, 2009). Therefore, at its most basic level, the media is a reporting tool that conveys private information to the public. In this information dissemination function, the media provides content and facilitates a common knowledge of events and situations that otherwise would have not been known (Bednar, Boivie, & Prince, 2013).

Media broadcasts of business matters are particularly salient because firms tend to control the information viewed by external audiences (Zavyalova et al., 2012). As a result, external audiences often construct reputational opinions about a firm based on the available information provided to them by trustworthy intermediaries such as the media (Chen & Meindl, 1991; Deephouse, 2000; Dyck, Moss, & Zingales, 2008; Einwiller, Carroll, & Korn, 2010; Fombrun & Shanley, 1990; Pollock & Rindova, 2003).

In corporate misconduct, the media produces information parity between private and public information, “which everyone knows about an instance of misconduct, they know that everyone else knows, and everyone else knows that they know” (Greve et al., 2010: 84). For instance, Wiersema and Zhang (2013) note that the stock option backdating scandal was due in part to the media spotlight from the *Wall Street Journal*. Reuber and Fischer (2010) also suggest that media interest turned the financial practice of SOPEX into a popular impression management technique used by firms to deflect negative attention from unsavory financial practices. In a personal misconduct event, increased media attention is akin to the famous sound analogy, “like a tree falling

unheard in the forest, there is no protest unless the protest is perceived and projected” (Lipsky, 1968: 1151). The media is thus a crucial conduit that makes external constituencies more aware of a transgression (Bednar, Love & Kraatz, 2015; Reuber & Fischer, 2010; Umphress et al., 2013).

The media often repetitively covers a story or event because this technique maximizes public interest on topics that the media believes is interesting (Pollock & Rindova, 2003; Pontikes et al., 2010). Media repetition creates self-reinforcing media attention after misconduct; corporate indiscretions tend to pique the interests of multiple stakeholders (Zavyalova et al., 2012), who in turn demand more information about all relevant details. Therefore, the volume of media attention is tantamount to a contagion effect, in which the media informs powerful constituents and even other journalists, who then spread the news to other constituents and so on (Rao, Greve, & Davis, 2001). Consequently, in deleterious corporate events that may include certain executive personal misconduct transgressions, a high level of media attention can provide a conduit of negative material against a company. This higher volume of coverage can subsequently indicate the level of public interest in the issue, which also offers a window into the amount of scrutiny the culpable actors and organizations are likely to face (Bednar et al., 2015; Fombrun, 1996; Pollock, Rindova, & Maggitti, 2008; Wiersema & Zhang, 2013).

In many circumstances, outside directors might prefer to simply ignore the incident of executive personal misconduct. However, the extent that a transgression is broadcast can transform a private event into a public spectacle that increases the

reputational costs for associated actors (Pollock & Rindova, 2003; Sutton & Galunic, 1996). Media attention concerning a transgression publicly associates organizational elites with negative behavior. Whether these elites perpetrated unsavory behaviors or not, media focus can consequently prompt the organization and individuals within the organization to take reputation-saving actions (Deephouse, 2000; Kjaergaard, Morsing, & Ravasi, 2011; Reuber & Fischer, 2010; Rindova et al., 2006; Wiersema & Zhang, 2013).

Therefore, when executive personal misconduct becomes public, either through private leaks alerting the media or in a statement by the firm, the media may take a high level of interest in the story and repeatedly cover the event. This higher volume of media attention disseminates negative information and can threaten a firm's organizational legitimacy, engendering a higher likelihood of director exit (Desai, 2011; Einwiller et al., 2010; Rhee & Valdez, 2009). These arguments suggest the following hypothesis:

Hypothesis 2: *Following revelation of an executive personal misconduct incident, a higher volume of media coverage significantly increases the likelihood an outside director will exit a misconduct firm.*

Market Reaction to Misconduct and Director Exit

An outside director may exit a firm following a negative market signal that ensues after revelations of executive personal misconduct. In occurrences of executive personal misconduct, when initial information about the event and culprit is publicly

shared, the offending firm may experience financial penalties that take the form of a drop in the company's stock (Engelen, 2011).

This consequence echoes a long line of research that has recognized that following a disclosure of corporate misconduct firms experience negative returns. For example, firms associated with financial misconduct on average experience a -4 to -11 percent decline over a two-day window, and even Feroz et al. (1991) reported as much as a 13 percent drop following the revelation of a restatement (Agrawal & Chadha, 2005; Agrawal, Jaffe, & Karpoff, 1999; Karpoff & Lott, 1993; Palmrose et al., 2004). This equates to approximately \$100 billion in market-adjusted losses in market capitalization immediately following misconduct disclosure and \$240 billion over the 60 days after disclosure (Arthaud-Day et al., 2006).

Penalties related to corporate misconduct can create tactical concerns for the firm, such as the spread of financial distress to other parts of the organization like capital expenditures and human capital (Karpoff & Lott, 1993). However, a more pertinent concern for outside directors following a personal conduct event concerns a decrease in firm value, which serves as a negative reputational signal indicating a stakeholder loss of confidence in the organization's legitimacy (Arthaud-Day et al., 2006; Scott, 1994; Suchman, 1995).

Scholars have conceptualized that in some circumstances, market decline is a manifestation of a reputational penalty (Alexander, 1999; Karpoff & Lott 1993; Karpoff et al., 2008a). A sign of reputational failure often used in the literature is a decline in a firm's market value as measured by its common stock (Kang, 2008). The lower share

price “decreases the value of the firm’s reputational capital because it indicates that the firm did not uphold its end of an implicit contract with some stakeholder” (Agrawal et al., 1999: 314). Engelen (2011) extends this line of reasoning to individual executive misconduct. He notes that in misconduct situations that see the bulk of the legal or regulatory penalties levied on the individual, rather than the firm, investors do not anticipate penalties that create a substantial financial impact on the organization and are therefore pointedly concerned with the firm’s legitimacy and reputation.

Engelen’s (2011) assertion thus points to the notion that market reaction to a misconduct event may additionally reflect discontent from the broader social landscape (Arthaud-Day et al., 2006). For instance, as a representative of the firm, a personal transgression by the executive might offend certain segments of the firm’s external environment including particular customers and organizational stakeholders. Such was the case following comments made about gay marriage from the executives of Chick Fil-a and Mozilla (McCullough, 2014).

These implications also suggest that a market penalty is an expression of a loss in confidence in the leadership of the company, including the board of directors (Arthaud-Day et al., 2006; Srinivasan, 2005). A negative investor reaction following misconduct may denote a potential reputational problem for firm leaders, as assurances that organizational elites are capable of providing an ethically responsible culture is compromised (Pinto et al., 2008). Therefore, a market decline upon disclosure of an executive personal misconduct event can be a signal of stakeholder disapproval that may

engender a higher likelihood an outside director will exit the misconduct firm. Thus, I make the following hypothesis:

Hypothesis 3: *A negative stock market reaction associated with an executive personal misconduct incident significantly increases the likelihood an outside director will exit a misconduct firm.*

Executive Turnover and Director Exit

Because personal misbehavior does not take the form of an organizational or operational transgression, executive personal misconduct may be generally viewed as less severe than other forms of misconduct, including financial fraud and restatements. This type of indiscretion might also be perceived as less severe because inconsistency in how external observers view the severity of the misconduct exists. Nonetheless, similar to other forms of misconduct, executive turnover is frequently part of an executive personal misconduct event. However, instead of alleviating the governance concerns of external observers, removing the indicted executive may send an adverse external signal indicating the severity of the personal misbehavior that exposes or magnifies any lingering doubts concerning the decision-making competency of the board (Arthaud-Day et al., 2006; Umphress et al., 2013). Therefore, after an executive personal misconduct event, if the need to change the culpable executive arises, additional scrutiny may befall directors. Consequently, the action of removing the implicated executive may further

jeopardize an outside director's future service with a firm due to a heightened scrutiny of the firm's leadership.

It has been long understood that organizational struggles perpetuate CEO turnover (Daily & Dalton, 1995; Farrell & Whidbee, 2002; Harrison, Torres, & Kukalis, 1988; Hazarika, Karpoff, & Nahata, 2012; Puffer & Weintrop, 1991). This assertion is also true for misconduct events. Firms often assign blame for the event and attempt to distance the organization from the perceived culprits by removing the implicated individuals (Wiesenfeld et al., 2008).

Organizations often remove management in times of reputational loss, even when actual fiscal penalties levied on the firm are low. Proceeding to remove an executive "can be a cost-effective way to reinvest in, and attempt to reestablish, the firm's reputational capital"; managers serve as a symbol of an organization's successes and failures and removing them presents a convenient fix to the problem (Agrawal et al., 1999: 314; Arthaud-Day et al., 2006). Multiple studies have found that financial fraud and restatements often cost the CEO and other top management positions their jobs (Wiersema & Zhang, 2013). In fact, Karpoff et al. (2008b) reported that almost 98 percent of CEOs lose their jobs stemming from government action in instances of financial misrepresentation, and Agrawal et al. (1999) reveals that 62 percent of the top three executives lose their jobs in a span of two years after the revelation of financial misconduct. Further, several scholars, including Arthaud-Day et al. (2006) and Desai et al. (2006), find that firms that restate earnings are more than twice as likely to experience CEO turnover.

While executive turnover is a highly visible event that the board undertakes to restore a firm's legitimacy (Wiersema & Zhang, 2013), these actions may also send a signal that the board believes the misconduct event was severe enough to take action to reestablish or protect the organization's legitimacy (Srinivasan, 2005). Of consequence, as the board of directors is considered at the forefront in protecting the firm's interests from wrongdoing, members of the board may be seen as responsible for some of the repercussions stemming from the event and any resulting firm turmoil (Arthaud-Day et al., 2006; Pozner, 2008; Srinivasan, 2005).

This aforementioned scenario may ensue because unexpected management turnover may add to increased uncertainty about the future direction and performance of the firm (Beatty & Zajac, 1987; Marcel, Cowen, & Ballinger, 2013; Wiersema, 2002).⁹ When there are unexpected changes in leadership, the financial sector including credit agencies, security analysts, investors – and the press – all view the firm with a critical eye (Coffee, 2006; Shen & Cannella, 2002).

As such, instances of executive turnover can magnify past and current personnel decisions of the board – as the board is held responsible for their hiring and firing decisions (Gomulya & Boeker, in press). For instance, after an executive personal misconduct incident, the decision to fire the culpable executive may be considered a controversial move. The culpable executive might be popular and external constituents may view the severity of the indiscretion differently than the board, as was the case after the firing of Mark Hurd of Hewlett Packard (HP). Thus, the decision to remove the

⁹ Uncertainty occurs even when a succession plan is supposedly put in place (Marcel et al., 2013).

executive tends to put a spotlight on the board, and adds scrutiny concerning their overall governance capabilities (Gomulya & Boeker, in press).

Thus, these scenarios taken together allude to the possibility that executive turnover related to an executive personal misconduct incident may signal larger problems for the firm and increase the propensity for outside director exit. I therefore suggest the following:

Hypothesis 4: *Turnover of an executive involved in a personal misconduct transgression significantly increases the likelihood an outside director will exit a misconduct firm.*

The Moderating Influence of a Director's Leadership Role

A perspective at the heart of stigma theory, as well as the notion of ex-post settling up, suggests that greater involvement in the organization by an outside director engenders enhanced culpability after a corporate misconduct event. As a result, a director that demonstrates greater board involvement by way of serving in a leadership position might be held more responsible for repercussions stemming from an executive personal misconduct incident. Hence, I suggest that a leadership role on a board is likely to interact with signals of stigma and engender an increased likelihood of director exit.

Stigma theorists assert that perceived controllability, which is the extent that the stigmatized is responsible for acquiring the stigma, tends to affect the severity of the audience's reaction to the inflicted (Crocker et al., 1998; Goffman 1963). As Devers et

al. (2009: 158) has argued, “Whereas stigmas perceived as uncontrollable generate pity or concern, those perceived as controllable elicit assessments of blame and elude strong negative cognitive, affective, and behavioral reactions from others.”

It has been empirically and theoretically noted that individuals at the top of the firm are more likely to be “singled out” for retribution when they are in a position of responsibility over the area of misconduct (Pozner, 2008; Weiner, Perry, & Magnusson, 1988; Wiesenfeld et al., 2008). For instance, in firms with a restatement, both Arthaud-Day et al. (2006) and Srinivasan (2005) find that outside directors holding positions in the firm’s Audit Committee experienced significant turnover.¹⁰ In fact, Arthaud-Day et al. (2006) reveals that outside directors on this committee are 70 percent more likely to encounter turnover than their counterparts in non-restatement firms, and these particular directors experienced more turnover than their peers that did not serve on that particular committee.

Therefore, outside directors that are more involved with a particular misconduct firm, as recognized by holding key positions, might be viewed as having possessed superior knowledge about the happenings in the firm (Pozner, 2008; Semadeni et al., 2008). Thus, increased culpability by way of a leadership position within a board, combined with a higher likelihood of stigma transfer as noted by signals of stigma, may interact to produce a higher propensity of outside director exit. Thus, I suggest the following hypotheses.

¹⁰ The Audit Committee is noted by its oversight of corporate governance and financial reporting (Daily, 1995).

Hypothesis 5a: *An outside director's leadership role in a board of directors will positively moderate the relationship between the volume of media coverage and director exit. Such that, serving in a leadership role increases the likelihood an outside director will exit a misconduct firm.*

Hypothesis 5b: *An outside director's leadership role in a board of directors will positively moderate the relationship between stock market reaction and director exit. Such that, serving in a leadership role increases the likelihood an outside director will exit a misconduct firm.*

Hypothesis 5c: *An outside director's leadership role in a board of directors will positively moderate the relationship between executive turnover and director exit. Such that, serving in a leadership role increases the likelihood an outside director will exit a misconduct firm.*

CHAPTER IV

METHODS

Sample and Data Collection

Because the media acts as a monitor that documents instances of deviant behavior, media reporting is commonly used in misconduct research to identify incidents of corporate misconduct (Bednar, 2012). Additionally, the use of media reports is even more frequently employed in circumstances of misconduct that is not commonly captured by institutional actors such as government agencies (Carberry & King, 2012; Jonsson et al., 2009; Wiersema & Zhang, 2013). As executive personal misconduct may not be reported to any particular government agency that would publicly reveal such information, I followed collection procedures used by Desai (2011), Pfarrer, Pollock, and Rindova (2010), and Wiersema and Zhang (2013) to identify instances of executive personal misconduct by examining media reports. The media captures transgressions that are announced by government authorities, or released by the focal firm, or third party actors.

I collected my sample-using web and print articles found within Lexis-Nexis and ProQuest media databases. The use of such databases is common among researchers using information found in social contexts, and searching information found within these multiple databases has become standard procedure for scholars examining media reports

(Desai, 2011). To identify incidents of misconduct within these databases, the most common process is to search by particular key words associated with the event. For instance, in financial misconduct, researchers search for key words such as “restatement” or “firm scandal” (Boivie et al., 2012; Cowen & Marcel, 2011; Desai, 2011; Pollock & Rindova, 2003). Likewise, King et al. (2015) looked at executive sexual harassment and the media and used identifying search terms such as “workplace romance,” “coworker affair,” and “employee romance.” Similarly, for executive personal misconduct, I searched using key words associated with this type of misconduct, such as the terminology found in Table 4 located in the appendix, and broader phrases including “CEO personal misconduct” and “executive scandal.”

Additionally, accounts of misconduct typified as executive personal misconduct and to be included in the sample were required to meet three criteria. 1) The beneficiary of the incident is the individual, as the action is meant to satisfy a direct or existential benefit or need of the person involved, and is not directly shared by the associated organization (Engelen, 2011; Pinto et al., 2008). 2) The intended target of the misconduct is either unrelated to the company or encompasses an interpersonal infraction or rule violation not directed at financial or organizational operations. 3) The perpetrator is an individual high-ranking executive that is involved in the firm’s key functions, and may be a recognizable face of the organization (Hambrick & Mason, 1984; Finkelstein, 1992). Such positions include the CEO, CFO, any member of the TMT (Finkelstein & Hambrick, 1990), as well as former CEOs and founders that sit on the Board of Directors (Quigley & Hambrick, 2012).

This process yielded 66 misconduct events in firms with 522 outside directors. However, upon examination of confounding misconduct events such as backdating, financial restatements, operational accidents, and government investigation, as well as acquisitions of the focal firm that followed the misconduct event, my sample was reduced to 62 firms and 492 outside directors.

In addition to my focal misconduct firms, I also collected a matched sample of firms and directors that did not experience a misconduct event. The matched sample was used to test the first hypothesis, which asserts in comparison to non-misconduct firms, executive personal misconduct is positively associated with director exit. To gather the matched sample, I used a “direct match” approach. This direct match approach is frequently employed in the misconduct literature and examines firm consequences following financial restatements, which has also included examination of director exit after misconduct (Gomulya & Boeker, in press).¹¹ Following matching procedures found in O'Connor et al. (2006), Ndofor et al. (in press), and Marcel and Cowen (2014), misconduct firms were matched to non-misconduct firms by year of the misconduct event, four-digit SIC codes, and total assets. This procedure produced a list of firms in the misconduct year with the same four-digit SIC code as the misconduct firm, which were ranked according to total assets. I then selected three firms that had the closest amount of total assets to the misconduct firm. The three firms were subsequently evaluated based on the availability of information, survival, and if the firm was free of

¹¹ The direct match approach matches firms based on SIC code and total assets is used in studies that examine director exit at the individual level and director exit at the firm level.

misconduct.¹² The matching firm that was most similar in total assets to the misconduct firm and met the aforementioned criteria was selected.¹³ To further ensure equivalency, I tested the similarity of the two groups in terms of asset, net income, firm age, and return on assets. I found no statistically significant difference between the groups on any of these dimensions (Gomulya & Boeker, in press). The match yielded a total sample of 124 firms and 933 outside directors.

Measures

Dependent Variable. I used a dichotomous variable indicating outside director exit, taking a value of 1 if a director departed a given focal board after the personal misconduct transgression and a value of 0 otherwise (Arthaud-Day et al., 2006; Boivie et al., 2012; Cowen & Marcel, 2011). I identified outside directors by collecting data from three sources; form and DEF-14a proxy statements that have been filed with U.S. Securities and Exchange Commission (SEC) and are found in the EDGAR database, and Riskmetrics and BoardEx databases (Cowen & Marcel, 2011; Marcel & Cowen, 2014). In following the procedures established by misconduct researchers, I identified outside director exit by collecting director's names from the proxy statement prior to the revelation of misconduct and classified director exit by marking whether a director departed a board.

¹² In order to determine if the non-misconduct firm was free of misconduct, I examined if the matched firm experienced misconduct events such as backdating, financial restatements, operational accidents, and government investigation.

¹³ There were two instances in which I was forced to gather a fourth matched firm due to a combination of lack of information and firm scandal.

The conventional time frame in research on controversy induced director exit is a three-year departure window (Arthaud-Day et al., 2006; Boivie et al., 2012; Cowen & Marcel, 2011; Fich & Shivdasani, 2007; Marcel & Cowen, 2014; Srinivasan, 2005). This is the case because directors often serve for various time frames, in which some boards elect directors annually, where as other boards are more staggered and elect members to a three-year term. Thus, I adopted up to a three-year departure window to ensure that every director stood for reelection at least once following a misconduct event (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Srinivasan, 2005).

Independent Variable: Matched Sample Model

Misconduct Firm. To test my first hypothesis, I used a model that includes a sample with both the misconduct firms and non-misconduct firms. Included in this model was a binary variable indicating if the director is on the board of a misconduct firm. A director serving on the board of a misconduct firm is noted by “1” and the non-misconduct firm “0.” A positive coefficient in the model that is statistically significant indicates a relationship between executive personal misconduct and director exit.

Independent Variables: Misconduct Firm Only Model

Media Volume. Research has shown that the volume of media coverage after misconduct can be indicative of the event’s saliency to the firm, and indirectly to its board of directors (Marcel & Cowen, 2014). Using articles gathered from Lexis-Nexus

and Proquest databases that report on the focal misconduct, researchers have measured media impact by counting the number of articles associated with the event (Deephouse, 1996; Desai, 2011; Gangloff et al., in press; Graffin et al., 2013; Wiersema & Zhang, 2013). Following collection procedures established in Desai (2011), in order for the article to be counted in the sample, the article included content regarding the name of the firm, culpable executive, and the misconduct event.

While there has been some inconsistency among researchers regarding the duration of the measurement window, 15-days to 90-days after, I took the latter approach and employed the longer 90-day time frame (Cowen & Marcel, 2011). This longer time frame allowed for percolation of media attention (Marcel & Cowen, 2014). Because after the initial report, media attention can instigate further scrutiny about the transgression, which produces subsequent reports that collaborate and expand upon the initial findings. Further, whereas some studies (e.g., Bednar et al., 2013; Marcel & Cowen, 2014; Zavyalova et al., 2012) limit news coverage to just a certain strata of media outlets, I counted all media outlets including media web publications.

Further, in separate analyses, for each reported incident of executive personal misconduct, I documented whether the media content specifically mentioned the phrase “board of directors.” Moreover, I created a dichotomous variable for lasting media attention by placing a value of “1” for media reports found that are more than 15-days out and “0” if none is reported. However, both of these variables were dropped from the final analysis over concerns of high multicollinearity with the focal variable that measures volume of media attention.

Market Reaction. It has been shown that the stock market tends to react negatively towards the focal firm on news of corporate misconduct (Palmrose et al., 2004). This result may create stronger pressure for director exit. To observe this possibility, I examined the stock market reaction following initial reports of personal misconduct (Agrawal et al., 1999; Palmrose et al., 2004; Wiersema & Zhang, 2013). Using Eventus, I estimated abnormal returns (ARs) for each misconduct firm (Gangloff et al., 2014). The following equation explains this estimation:

$$AR_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt}).$$

In estimating abnormal returns R_{it} is the rate of return of stock i on day t , R_{mt} is the rate of return on the stock market index on day t , α and β are the parameters of the market model estimated from an ordinary least squares regression of R_{it} on R_{mt} over a period ranging from 200 to 30 trading days prior to the announcement date. The daily abnormal returns are then cumulated over a time window (t_1, t_2) , which includes the announcement day. I estimated the model using a 200-day window ending 46 days prior to an event (Arthaud-Day et al., 2006). I used CRSP Equally Weighted + Value Weighted models in the analysis and captured various event windows including three (-1, 1), four (-2,1), (-1,2), (-3,0), and five-day (-2,2) event windows. I also captured the market reaction event day, and the lowest market reaction event day, which was the lowest market reaction during a five-day event window.

Although I included these various event windows in subsequent analyses, for my primary analyses I used a value weighted market model – three-day event window –

because similar misconduct research has shown that this three-day window is appropriate for measuring unexpected events such as misconduct (e.g., Gangloff et al., in press; Wiersema & Zhang, 2013). This procedure enables the capture of information leakage prior to the event and allows for measurement of gradual responses on the day after the event (Arthaud-Day et al., 2006; Pfarrer et al., 2010; Zhang & Wiersema, 2009). As such, the other windows were included in my subsequent robustness analyses.

Executive Turnover. I also examined executive turnover for the executive engaged in misconduct, as these sudden departures can act as an external signal marking the severity of the misconduct, and executive turnover may also create turmoil within the firm that can heighten pressure for directors to exit (Marcel & Cowen, 2014). To measure executive turnover for the accused executive, I used a dichotomous dummy variable equal to ‘1’ if there was a departure and ‘0’ otherwise (Arthaud-Day et al., 2006; Marcel & Cowen, 2014; Gangloff et al., in press; Wiersema & Zhang, 2013). The most commonly used time period to capture executive turnover is a 24-month window following the revelation of misconduct (Arthaud-Day et al., 2006; Gangloff et al., in press). Therefore, using Execucomp, I recorded turnover events that occurred 2-years after the reported transgression.

Director Leadership Role Moderator. This measure is a dichotomous variable indicating a leadership role in the firm (Boivie et al., 2012). Similar to a study by Boivie et al. (2012) that examined director exit, a leadership role within the board of directors in this study is measured by examining whether the individual outside director served as Chair, Vice Chair, or Lead Independent Director of the board of directors at the time of

the misconduct.

Control Variables. I controlled for *firm age*, *firm size* as measured by a firm's total assets (Cannella & Shen, 2001; Marcel & Cowen, 2014; Wiersema & Zhang, 2013), and *financial performance* as measured by both the average return on assets from the year of the event and two years prior, and a rolling average of a firm's revenue from the two years prior of the event to the event year (Arthaud-Day et al., 2006; Marcel & Cowen, 2014). CEO characteristics that were controlled for included *CEO duality* and *CEO tenure* (Finkelstein, 1992; Haynes & Hillman, 2010; Pollock, Fischer, & Wade, 2002). Relatedly, I controlled for board characteristics including *board size* (the number of directors on the board), and *board independence* (composition of the board in terms of the percentage of outside directors on the board), and *board tenure* (the number of years the director has served on the board). Additionally, I controlled for the severity of the personal misconduct event by documenting whether the event was associated with *individual criminal* or *firm legal penalties*. Lastly, it is theoretically believed that there could be individual differences directors possess that might also influence his/her propensity to exit a firm (e.g., Marcel & Cowen, 2014). Thus, I controlled for *director age*, *total directorships*, which is the number of other boards the director is part of (Boivie et al., 2012; Marcel & Cowen, 2014), and the financial stake in the focal firm measured by *director shares owned* (Marcel & Cowen, 2014). Further, I also controlled for whether the director served as *chair for the audit or compensation committees in the focal firm*, if the director served in a *leadership position on another firm's board*, and whether the director served as a *top executive in another firm* at the time of the

misconduct.

Analysis

Given that my dependent variable is binary, similar to analyses in other studies that examined corporate misconduct and director exit I used logistic regression to test my hypotheses (e.g., Gomulya & Boeker, in press; Marcel & Cowen, 2014). The logistic regression approach used estimated Huber-White robust standard errors to correct for heteroskedasticity of the residuals, and was clustered by firm in order to minimize concern regarding a potential lack of independence across observations (Srinivasan, 2005; White, 1980).

I also tested that my logistic model is correctly specified. I used a “linktest” which uses the linear predicted value $\hat{\chi}$ and linear predicted value squared $\hat{\chi}^2$ as the predictors to rebuild the model (Long & Freese, 2014). The link test shows that a model is correctly specified when the $\hat{\chi}$ variable is significant and the $\hat{\chi}^2$ is insignificant. In this test, the variable $\hat{\chi}$ should be a statistically significant predictor, if the model is correctly specified because it is the predicted value from the model. Further, if the model is properly specified, variable $\hat{\chi}^2$ does not have predictive power except by chance (Long & Freese, 2014).

I additionally measured model fit by using the Hosmer and Lemeshow's goodness-of-fit test. In the Hosmer and Lemeshow's test predicted frequency and observed frequency should match closely, and that the more closely they match, the

better the fit (Long & Freese, 2014). The Hosmer-Lemeshow goodness-of-fit statistic is computed as a Pearson chi-square from the contingency table using the observed frequencies and expected frequencies. A larger p-value indicates a good model fit. In addition, I assessed discrimination by examining the area under the ROC curve (Kang, 2008).

Further, because pseudo R-square is not measured in terms of variance because in logistic regression the variance is fixed, there a number of other pseudo R-squares that are often reported. However, at this time there is no pseudo R-square version that is preferred by most scholars over other versions (Hoetker, 2007; Long & Freese, 2014). As such, I report McKelvey and Zavoina's pseudo R-square, which is a commonly used type of pseudo R-square measure. Lastly, I examined my models for multicollinearity and I did not find multicollinearity in the models, as all of the VIFs were fewer than 2.

CHAPTER V

RESULTS

Table 2 provides summary statistics and correlations for the variables tested. Table 3 provides a summary of the results for the hypotheses tested. For ease of interpretation, I report the odds ratios opposed to coefficients (Arthaud-Day et al., 2006). However, there is some debate regarding the usefulness in interpreting odds ratios without examination of the marginal effects (Hoetker, 2007; Wiersema & Bowen, 2009). For this reason, I also report the marginal effects in the explanation of my results in the following paragraphs.

Models 1 and 2 display results of the likelihood of director exit using a matched sample. Model 1 includes only the control variables. Model 2 introduces the main effect of executive personal misconduct and the likelihood of director exit. Models 3-5 report the results of the misconduct only sample, including the relationship between media volume, market reaction, executive turnover and likelihood of director exit. Model 3 introduces only the controls, Model 4 adds the main effects, and Model 5 the interaction effects.

Several control variables showed statistical significance. Across the models director board tenure and director shares owned displayed statistical significance. Models 1 and 2, the matched sample models, director board tenure, revenue, and CEO tenure all displayed statistical significance and director shares owned showed marginal

statistical significance. Models 3-5, the misconduct only sample, director board tenure and director shares owned displayed statistical significance, and board independence and firm age showed marginal statistical significance.

Hypothesis 1 tests the likelihood of director exit in misconduct firms. The descriptive statistics indicate that director exit is much more prevalent in misconduct firms than non-misconduct firms. Over 28 percent of directors exited in misconduct firms compared to just 11 percent in the non-misconduct firms.¹⁴ The model fit of this first analyses showed reasonable fit. The χ variable is statistically significant and the χ^2 is statistically insignificant. Further, the Hosmer and Lemeshow test illustrates good model fit, as this test statistic is not significantly different from zero ($p > .05$) (Hosmer & Lemeshow, 2000; Kang, 2008). Additionally, the area under ROC curve is above .70, which indicates a fair amount of discrimination in the model.

¹⁴ Director exit measured by percentage of board of directors that left was also around 11 percent for non-misconduct firms and 28 percent for misconduct firms.

Table 2: Summary Statistics and Correlations

No	Covariates	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11
1	Director exit	0.21	0.4	0	1	1										
2	Committee chair	0.2	0.4	0	1	-0.03	1									
3	Director age	60.65	9.14	31	90	0.03	0.13*	1								
4	Director shares owned	1910000	25400000	0	621000000	-0.02	0.03	0.01	1							
5	Director board tenure	6.92	7.04	0	46	0.08*	0.11*	0.40*	0.12*	1						
6	Director board leader focal firm	0.09	0.29	0	1	0.05	0.02	0.11*	0.07*	0.13*	1					
7	Director executive	0.15	0.36	0	1	-0.03	-0.07	-0.17*	-0.03	-0.14*	-0.08*	1				
8	Director board leader other firm	0.22	0.42	0	1	0.06	0.09*	0.07*	0.00	-0.01	0.04	0.23*	1			
9	Total directorships	1.1	1.27	0	9	0.00	0.15*	0.07*	-0.02	0.00	0.04	0.04	0.27*	1		
10	ROA	0.05	0.18	-0.43	1.61	0.00	-0.03	0.00	-0.04	0.05	0.01	0.02	0.01	0.01	1	
11	Firm Size	51889.04	124207.33	73.23	685328	-0.03	-0.03	0.09*	0.00	0.02	-0.03	0.02	0.17*	0.13*	-0.02	1
12	Revenue	271.75	7330.82	-52035	31606	-0.08*	0.01	0.05	-0.02	0.02	-0.05	0.01	0.00	-0.01	-0.01	0.11*
13	Board independence	0.82	0.11	0.3	1	-0.07*	0.00	0.10*	-0.02	0.01	0.04	0.08*	0.03	0.08*	-0.05	0.11*
14	Board size	10.2	2.76	0.9	19	0.09*	-0.10*	0.06	0.00	0.04	-0.08*	0.05	0.16*	0.17*	0.05	0.50*
15	CEO duality	0.58	0.6	0	10	-0.07*	-0.05	0.01	-0.00	0.08*	-0.03	0.09*	0.01	0.04	0.05	0.10*
16	CEO tenure	6.72	7.06	0	43	-0.11*	0.05	0.13*	0.02	0.13*	-0.03	-0.04	0.01	-0.02	0.01	0.14*
17	Misconduct firm penalties	0.29	0.45	0	1	0.10*	-0.03	-0.06	0.07	-0.02	-0.05	-0.03	-0.04	0.03	-0.00	-0.19*
18	Misconduct executive criminal	0.18	0.38	0	1	-0.06	0.01	-0.09*	-0.04	-0.07	-0.03	0.11*	-0.14*	-0.16*	-0.06	-0.18*
19	Firm age	26.54	19.26	0	63	-0.03	-0.05	0.16*	-0.03	0.15*	-0.04	0.05	0.08*	0.15*	0.05	0.39*
20	CEO turnover	0.33	0.47	0	1	0.17*	-0.02	0.02	0.03	0.02	0.04	-0.06	0.03	0.02	-0.15*	0.03
21	Media volume	17.7	14.31	1	67	0.24*	-0.04	-0.08	0.05	0.06	-0.02	0.03	0.02	0.00	-0.01	-0.03
22	Market reaction	-0.006	0.067	-0.37	0.23	0.10*	-0.09*	-0.02	-0.09	0.03	0.01	-0.01	-0.07	0.00	0.06	0.03

No	Covariates	12	13	14	15	16	17	18	19	20	21	22
12	Revenue	1										
13	Board independence	-0.10*	1									
14	Board size	0.18*	0.17*	1								
15	CEO duality	0.14*	0.11*	0.10*	1							
16	CEO tenure	-0.08*	-0.09*	-0.18*	0.21*	1						
17	Misconduct firm penalties	0.00	-0.16*	0.06	0.05	-0.10*	1					
18	Misconduct executive criminal	0.03	0.12*	-0.06	-0.04	-0.20*	-0.16*	1				
19	Firm age	0.04	0.38*	0.49*	0.26*	0.02	-0.08	-0.08	1			
20	CEO turnover	-0.19*	0.15*	0.05	-0.15*	-0.04	0.12*	-0.15*	0.11*	1		
21	Media volume	-0.14*	0.15*	0.18*	-0.17*	-0.24*	0.31*	0.07	0.23*	0.27*	1	
22	Market reaction	-0.03	0.01	0.20	0.08	-0.01	-0.06	0.06	-0.07	0.10	-0.08	1

*p<.05

Further, the misconduct firm variable, which is depicted in Table 3 in Model 2, showed a positive and statistically significant relationship ($p < .001$) with a 2.88 odds ratio. Additionally, overall the marginal effect was statistically significant and suggests directors in firms experiencing executive personal misconduct demonstrate a 16 percent greater probability of exiting a firm than directors in firms without misconduct. Further, in order to determine if director exit in non-misconduct firms is also statistically significant, I reran the analysis with a binary variable indicating a “1” for a director on

the board in a non-misconduct firm and “0” for a misconduct firm. As expected, the non-misconduct firms had a statistically significant negative relationship with director exit at $p < .001$. Therefore, I can reasonably conclude support for my first hypothesis.

Table 3: Likelihood of Director Exit

	Model 1		Model 2		Model 3		Model 4		Model 5	
Control variables: matched sample and misconduct firm analyses										
Director age	1.01	(.01)	1.01	(.01)	1.01	(.02)	1.02	(.02)	1.02	(.02)
Director shares owned	1.00+	(.00)	1.00+	(.00)	1.00*	(.00)	1.00*	(.00)	1.00*	(.00)
Director board tenure	1.04*	(.02)	1.04*	(.02)	1.06*	(.03)	1.06*	(.03)	1.06*	(.03)
Director board leader focal firm	1.28	(.32)	1.26	(.34)	1.04	(.37)	1.12	(.15)	0.11	(.15)
Total directorships	0.98	(.08)	0.98	(.07)	0.93	(.08)	0.97	(.10)	0.97	(.10)
ROA	0.77	(.49)	1.13	(.84)	0.73	(1.1)	2.93	(3.5)	2.54	(3.6)
Firm size	1.00	(.00)	1.00	(.00)	1.00	(.00)	1.00	(.00)	1.00	(.00)
Revenue	1.00***	(.00)	1.00*	(.00)	1.00*	(.00)	1.00+	(.00)	1.00	(.00)
Board independence	0.15*	(.13)	0.45	(.42)	0.35	(.43)	0.10+	(.13)	0.11+	(.13)
Board size	1.16**	(.05)	1.08	(.05)	1.08	(.07)	1.02	(.07)	1.02	(.07)
CEO duality	0.89	(.21)	0.92	(.18)	0.83	(.26)	1.36	(.45)	1.37	(.45)
CEO tenure	0.95*	(.02)	0.95*	(.02)	0.96	(.03)	0.97	(.03)	0.96	(.03)
Firm age	0.99	(.01)	0.99	(.01)	1.00	(.01)	0.98+	(.01)	0.98+	(.01)
Additional control variables: misconduct firm analyses										
Committee chair					0.81	(.22)	0.77	(.22)	0.79	(.22)
Director executive					1.10	(.43)	1.14	(.46)	1.12	(.46)
Director board leader other firm					1.53	(.42)	1.58	(.49)	1.62	(.49)
Misconduct firm penalties					1.37	(.49)	0.90	(.32)	0.85	(.32)
Misconduct executive criminal					0.66	(.23)	0.66	(.26)	0.68	(.26)
Independent variables										
Misconduct firm			2.88*** (.76)							
CEO turnover							2.09* (.69)		1.93* (.62)	
Media volume							1.04*** (.01)		1.04*** (.01)	
Market reaction							1.42+ (.29)		1.47+ (.29)	
Moderator variables										
Market reaction x Director leader									0.43* (.45)	
Media volume x Director leader									1.05 (.04)	
CEO turnover x Director leader									8.49 (12)	
Observations	931		931		492		492		492	
r2_p	0.13		0.18		0.14		0.27		0.31	
Wald chi-square	35.69***		47.89***		36.32***		74.01***		70.21***	

Standard errors in parentheses.

Coeffecints reported as odds ratios.

*** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

The misconduct firm sample analysis that is described in Models 3-5 demonstrated reasonable model fit; as the linktest showed that the $\hat{\chi}$ variable is statistically significant and the $\hat{\chi}^2$ statistically insignificant, and the Hosmer and Lemeshow test illustrates good model fit as this test statistic is not significantly different from zero ($p > .05$). Additionally, the area under ROC curve is above .75 thus indicating good discrimination in the model.

In Hypotheses 2-4, I assert that in misconduct firms certain signals of firm stigmatization are likely to increase the propensity of directors to exit in misconduct firms. In Hypothesis 2, I suggest that higher media volume is associated with an increased likelihood of director exit. The results of this relationship shown in Model 4 indicate significant support for such a relationship. The main effect is positive and statistically significant ($p < .001$) with a 1.035 odds ratio. Moreover, the marginal effect is also statistically significant but the effect size is somewhat small, a one-unit increase in the volume of media coverage produces a less than one percent increase in the probability of director exit in a misconduct firm. Further, I also tested director exit and volume of media coverage by separating the media coverage into three groups – low, medium, and high. The low group was composed of firms with fewer than 10 media articles, medium group 10-20 articles, and the high group more than 20 articles. Directors in the low media volume group exhibited 16 percent exit, the medium group 29 percent exit, and the high group 45 percent exit. In separate analyses, I also examined the volume of media coverage using a shorter 15-day post event window, and older

media coverage after the 90-day post event window. Both of these variables exhibited statistical significance, the 15-day window ($p < .01$) and older media ($p < .05$).

Hypothesis 3 posits that a negative market reaction following the misconduct is associated with an increased likelihood of director exit. This relationship represented in Model 4 demonstrates only marginal statistical significance and is therefore not supported. Examining the abnormal returns for individual firms produced mixed results. The primary analyses involved examination of three-day event windows. When analyzed, all of the 3-day windows (market model, value weighted, and equally weighted) were positively related to director exit. For ease of interpretation, I standardized the variable (which did not change the significance of the results) and out of the range of event windows, I selected the three-day value weighted market model window, because this window is frequently cited in misconduct research (Wiersema & Zhang, 2013). Although the majority of firms experienced a negative market reaction after the event, this analysis yielded a marginal statistically significant result ($p < .1$) with an odds ratio of 1.42. The marginal effect also showed marginal statistical significance and the effect size demonstrated that a one-unit increase in the market reaction produces a 6.5 percent increase in the probability of director exit in a misconduct firm. Further, when I examined the other event windows for robustness (four and five-day windows), five out of the nine analyzed were found to be insignificant.

Hypothesis 4 suggests that executive turnover of the culpable executive is associated with an increased likelihood of director exit. The results from this hypothesis are shown in Model 4. This hypothesis is supported ($p < .05$) and the odds ratio is 2.09.

Overall, the marginal effect was statistically significant; suggesting that turnover of a culpable executive in a misconduct firm increases the likelihood of director exit by 13 percent. Moreover, in order to minimize the possibility that CEO turnover is an artifact of natural retirement – as the window used for exit was two-years – I examined CEO turnover that occurred within six-months of the event. Although there were several CEOs that indeed left their respective firm after six-months thus reducing my sample size, the results of this analysis were even more robust than the original timeframe, showing an odds ratio of 2.31 and a 15 percent marginal effect. Therefore, these results provide further support for Hypothesis 4.

Lastly, Hypotheses 5a-5c – which assert that directors serving in a leadership role on the board will positively moderate the effect of media volume, executive turnover, and market reaction and director exit – did not receive support. Surprisingly tests of Hypothesis 5c, which is reported in Model 5, showed that director leadership role instead negatively moderated the effect of market reaction and director exit ($p < .05$).

Robustness Checks

I also ran the model using a number of other statistical techniques. I used a board-level GLM model to look at director exit as measured by the percentage of directors leaving a firm. This model was used in order to mitigate the threat of potential bias in board size between the misconduct and the matched firms. The results of this model were similar to the logistic analyses. Further, I also used a negative binomial regression at the board level in order to count the number of directors who left a firm.

Lastly, I ran my model as a probit analysis. Again, the results from these analyses were roughly identical to my primary analyses.

I also tested a variety of other control variables including whether the CEO is a founder, the CEO percentage of beneficial ownership as compared to the board of directors, and whether the CEO perpetrated the misconduct. All of these control variables were found to be insignificant and did not contribute to the overall explanatory model and therefore were excluded from the primary analyses.

Finally, I analyzed an interaction between media volume, market reaction, and executive turnover with a binary variable indicating whether a director served as chair for the audit or compensation committees in the focal firm. The results of this analysis were found to be statistically insignificant, with the interaction between market reaction and committee chair demonstrating marginal statistical significance. However, due to the fact that some directors served in both leadership positions and chair positions, it was decided that potential multicollinearity concerns outweighed the benefits of including this variable in the analysis.

CHAPTER VI

DISCUSSION AND CONCLUSION

In this dissertation, I proposed a model that suggests a character transgression, executive personal misconduct, engenders a stigma by association, which affects the firm and members of the board and demonstrates widespread consequences that extend beyond the guilty individual and the initial act. The model specifically posits that in comparison to non-misconduct firms, personal misconduct of the top executive is associated with a higher likelihood of director exit. Further, wherein the misconduct produces negative signals that signify the spread of reputational harm from the individual to the firm, it is hypothesized these signals of stigma are associated with a greater likelihood a director will exit the misconduct firm.

Results from this research indicate that consequences of executive personal misconduct are not strictly limited to the culpable executive. Directors in misconduct firms tend to exit at a rate that is more than double than those directors in non-misconduct firms. Further, in looking exclusively at directors in misconduct firms, these directors show an increased likelihood of exit in the presence of signals (executive turnover and media volume), which signifies the spread of harm from the individual to other elements of a firm. The following paragraphs discuss the findings of each hypothesis in more detail.

The test of the first hypothesis shows that there is a positive relationship between executive personal misconduct and outside director exit. Overall, director exit is thought to occur in drastic circumstances, such as bankruptcy and severe financial misconduct (Arthaud-Day et al., 2006).¹⁵ The results support the notion that during normal non-event periods, most directors do not exit a firm (non-misconduct firms were found to be negatively related to exit). However, the results also illustrate that outside director exit does occur after an executive personal misconduct event, albeit to a lesser degree, than more severe events such as financial restatements. Director exit following financial restatements is believed to occur at a rate around forty-to-fifty percent (Arthaud-Day et al., 2006; Cowen & Marcel, 2011; Marcel & Cowen, 2014; Srinivasan, 2005). In my sample of executive personal misconduct firms, director exit occurred at a rate around 28 percent. Thus, my results conclude that directors will exit at a different frequency contingent on circumstances of the misconduct event.

The significance of this finding is substantial to the misconduct literature, because it reveals that other forms of misconduct that are seemingly unrelated to the operations of the firm may still have significant consequences for the firm and its members. Currently, within the misconduct literature there is a narrow focus on the contexts studied. The literature primarily examines only the most severe forms of misconduct, such as financial restatements, disasters that are related to firm operations, and other illegal activities that are associated with characteristics of a firm's operation and production (Greve et al., 2010). Therefore, while the management field is informed

¹⁵ Boivie et al. (2012) is an exception.

regarding the consequences and firm level responses towards misconduct that one would expect to cause a negative stakeholder reaction, sensitivity to less severe misconduct events is presently underexplored.

The results of my first hypothesis test indicate that this less severe form of misconduct is associated with the types of consequences that are observed in more severe operationally related forms of misconduct. Character indiscretions of managers, which were not previously studied as corporate misconduct, are shown to affect the firm in an adverse manner. Of consequence, these types of indiscretions have implications for a firm because they signify that character at the top is often associated with trust in the firm's ability to function in an ethical manner. Perception of organizational unethical behavior can therefore take the form of personal moral transgressions by managers that are indirectly related to firm operations. Thus, the result of the first hypothesis test suggests that character indiscretions of management might be more important than previously considered, and there is a need to expand the current study of corporate misconduct beyond the limited operational contexts that have been examined.

The next set of hypotheses also empirically support the idea that an existential event, in which the firm and board of directors are at best indirectly connected with, can be transformed into a matter of concern for the organization and its associated actors, including certain members of the board of directors. There are signals that indicate firm stigmatization and allude to a stigma transformation, which turns stigma from the originating act from an existential to an achieved stigma (Falk, 2001; Link & Phelan, 2001). Hypotheses 2-4 posited that the prevalence of these signals is connected to an

increased likelihood of outside director exit in misconduct firms. This research subsequently found support for most of these hypotheses. The importance of these findings is particularly notable due to the mixed conclusions demonstrated in previous studies.

For instance, Hypothesis 2 asserts that a higher volume of media coverage significantly increases the likelihood an outside director will exit from a misconduct firm. The literature notes that the media plays an important role in shaping the public perception of the event. Media attention publicly exposes a negative event and labels such an act as an alleged violation of norms (Bednar et al., 2013; Desai, 2011; Reuber & Fischer, 2010). This type of social control agent transmits what ethical principles are promulgated and upheld to a critical mass (Barnett, 2014; Bednar, 2012; Devers et al., 2009; Greve et al., 2010; Jonsson et al., 2009). The media therefore, “serves a prominent function in corporate scandals by drawing initial attention to, as well as defining the public’s perception of, such behavior” (Wiersema & Zhang, 2013: 591).

The results of Hypothesis 2 indicate that the media serves a particularly important role in regards to director exit following executive personal misconduct. As an arbitrator of legitimacy, the media’s subjective discernment of an executive personal misconduct event may engender a visible violation of norms and can influence stigma transfer. It is recognized that the media is instrumental in shaping the public’s perception of evolving social issues (e.g., discrimination based on gender, race, or sexual orientation) (Gamson, Croteau, Hoynes, & Sasson, 1992; Hoffman & Ocasio, 2001; Pollock & Rindova, 2003). This is especially true for types of corporate misconduct that

are in the process of socially evolving into more of a deviant behavior or action than historically considered, such as several of the transgressions highlighted as personal misconduct (Pierce, Broberg, McClure, & Aguinis, 2004). The media's role – in elucidating the event, increasing the visibility of a violation of norms, and perpetuating the degree that the damaging event is linked to an organization – is significant (Greve et al., 2010; Pozner, 2008). Therefore, in an executive personal misconduct incident, the media might be one of the most influential social change agents affecting the extent to which the event is relevant to external observers and associated actors inside the firm (Barnett, 2014; Bednar, 2012; Umphress et al., 2013). Supporting this argument, this research demonstrated that the relationship between the volume of media coverage of the event, and outside director exit was significant.

In a personal misconduct event, the media is therefore a key facilitator in the stigma transfer process. Media attention may increase the degree to which the stigma is transferred and the existential stigma is transformed into an achieved stigma – subsequently increasing the reputational costs for those directors associated with the personal misconduct firm. However, some previous misconduct research including Boivie et al. (2012) and Marcel and Cowen (2014) failed to find statistical significance between media attention and director exit after a financial restatement. Yet, other studies that have examined misconduct contexts with broader social appeal such as accidents and individual scandal (e.g., Desai, 2011; Graffin et al., 2013), note the importance and influence of the media on stakeholder reaction following the misconduct event.

In particular types of severe corporate misconduct events, such as financial restatements the media is less influential. In these types of severe misconduct, the event, in of itself, is likely to be perceived as a violation of norms, or the alleged violation is a concern for a narrower segment of stakeholders than other types of corporate misconducts such as operational disasters (Desai, 2011; Zavyalova et al., 2012). Wherein, a misconduct event that is less interpretable, the media is less likely to influence firm outcomes compared to events in which the nature of the event is more discernable. Thus, the results from this study further inform research examining media influence and misconduct by suggesting that the influence of the media varies based on the nature of the misconduct event.

Similar to media attention, another visible signal of a stigma transfer highlighted in this research includes financial penalties for the misconduct firm. Commensurate with other forms of corporate misconduct, personal misconduct may also result in financial penalties for the firm, which signals a stigma transfer from the individual to the firm. As misconduct attributed to a firm often categorizes the firm as in violation of ethical standards of society (Suchman, 1995; Wiersema & Zhang, 2013). Therefore, financial penalties arising from a personal misconduct event can signify that the individual's misconduct affects the firm's reputation (Engelen, 2011). A financial penalty subsequently produces a signal that the misconduct event may affect a firm's bottom line and biases how observers view the firm (Alexander, 1999; Baucus & Baucus, 1997; Engelen, 2011; Moore et al., 2010). Thus, financial penalties suggest that the firm has been tainted by the event, which spreads penalties from the individual to the firm and

enables organizational stakeholders to fear that failures by the firm will negatively affect them as well (Mishina & Devers, 2012; Palmrose et al., 2004; Semadeni et al., 2008).

Similar to some other studies that have examined negative market reaction and higher rates of director exit (e.g., Arthaud-Day et al., 2006), the results of testing Hypothesis 3 were also mixed as this hypothesis only received marginal support. While Arthaud-Day et al. (2006) suggested that their particular restatement sample contributed to their lack of statistical support – the similar conclusion by this study may point to a general lack of support for this given relationship. I suggest examination of the short-term market reaction may not be the best predictor of lasting social illegitimacy. A number of scholars have noted the stock market tends to initially overreact to new information and unexpected events (Bondt & Thaler, 1985; Loughran & Ritter, 1995; Ritter, 1991). However, this initial overreaction is usually corrected over time (Fama, 1998). Therefore, capturing just the initial investor response after a misconduct event may not be reflective of the scope of general stakeholder sentiment that leads to higher rates of director exit.

The last hypothesis about signals of stigmatization regards executive turnover. This result theoretically and empirically contrasts with some studies in the management literature. It has been theoretically argued that after misconduct, executives are often scapegoats and are singled out to receive blame in order to prevent blame from being distributed across the organization (Arthaud-Day et al., 2006; Semadeni et al., 2008; Wiesenfeld et al., 2008). Thus, in looking at wide-ranging scandals from accounting errors at Hertz that occurred in 2014, to the more recent example of emissions testing

malfeasance at Volkswagen, the CEO usually receives the bulk of the blame and is the first individual to exit. As such, corresponding with this contention, some studies about misconduct, director exit, and executive turnover argue for a negative relationship between the two variables because executive turnover is a substitute for director turnover (e.g., Cowen & Marcel, 2011; Marcel & Cowen, 2014).¹⁶

However, literature from the accounting field suggests that after a financial restatement, executive turnover is indicative of more severe restatement events that carry greater penalties and increase the likelihood of director exit (Srinivasan, 2005). Similarly, I assert that another visible sign of a stigma threat indicating the seriousness of a transgression is executive turnover. Instances of executive turnover signify that the transgression was severe enough to warrant removal of the tainted individual, and actions by the board are particularly scrutinized because executive turnover tends to affect the organization's operations and sows uncertainty among stakeholders (Beatty & Zajac, 1987; Wiersema, 2002). The impromptu removal of an executive may thus signal a stigma transfer because executive turnover can be viewed as an admission of an oversight failure. Therefore, executive turnover often puts a spotlight on the board's actions taken before and after the transgression.

Moreover, due to the nature of the transgression, the correct actions after the misconduct are not so clear-cut: there might be a thin line between the decision to keep or fire the executive. Because the nature of the transgression may not warrant automatic

¹⁶ Although Marcel and Cowen (2014) argued that CEO turnover is a substitute for director turnover, they did not find results to support this contention and the non-significant coefficient indicated a positive relationship between CEO/CFO turnover and director exit.

dismissal, the board's discretion and judgment are integral to the firing process. However, this decision might corner the board into a difficult position where there is no optimal outcome. This was the circumstance when the Hewlett Packard board fired CEO Mark Hurd for an inappropriate sexual relationship. After Mark Hurd was fired, the board's decision and process in making that decision were publicly scrutinized. Outside observers called the board actions "boneheaded" and compared the firing to that of Apple's CEO Steve Jobs (Tobak, 2010). Thus, the aforementioned suggestions and results from this study show that when the executive is at the heart of a transgression, the dismissal of the bad apple may consequently engender a subsequent scapegoat effect, which can expand to the board.

Overall, the results indicate that reputational signals are exceptionally important for lesser forms of misconduct. The event alone may not be initially or consistently perceived as severe or applicable to the firm, or to individuals that are associated with transgressor. Yet, the presence and severity of these signals, which are tangential to the firm and the board, may seep its way into the organization and the boardroom.

Finally, my last set of hypotheses in this research featured moderators that test the extent to which an outside director's leadership role in a board of directors positively moderates the relationship between the signals of stigmatization – such as volume of media coverage, market reaction, and executive turnover and outside director exit. Although I did not find support for any of the moderator hypotheses, they still yielded some interesting findings. Results showed that the outside director's leadership role and market reaction negatively related to director exit. Thus, the director's leadership role

negatively moderated the positive relationship between market reaction and director exit. This finding is the opposite of that hypothesized, but is not all that surprising.

I argued that a director's leadership role is associated with greater responsibility, which in turn has been shown to create a higher likelihood that a director receives blame for a misconduct event (Arthaud-Day et al., 2006; Srinivasan, 2005). A counter perspective to this argument suggests that when an individual has the ability to influence organizational outcomes, he or she develops belongingness to a group, which psychologically instills a belief in the individual that their fate is intertwined with that of the group (Ashforth & Mael, 1989; Boivie, Lange, McDonald, & Westphal, 2011; Lange, Boivie, & Westphal, 2015; Mael & Ashforth, 1989; Tajfel, 1982). Directors who have a higher ability to influence an organization are associated with a greater efficacy motivation that connects individual actions to organizational outcomes.

The level of director involvement in board activities is especially important during times of crises (e.g., Withers et al., 2012). In times of crises, a greater amount of involvement in the board will facilitate familial identification with the firm, ergo engendering affective feelings of obligation to support the organization through discontinuity and conflict (Fischer & Pollock, 2004). A director firmly rooted in higher-level board activities, such as serving in a leadership capacity, is thus more likely to possess a heightened commitment to organizational well-being. In circumstances of executive personal misconduct, greater director involvement with the organization may internally motivate the director to act in the best interest of the firm and attempt to resolve the problems rather than exit (Boivie et al., 2012; Withers et al., 2012). Thus,

while my results do not conclusively support such an assertion, it certainly might be explained by this counter rationale.

Contributions to the Literature

Since the highly publicized Enron scandal in 2001, waves of corporate misconduct have periodically dominated societal debate (Donaldson, 2003; Zahra, Priem, & Rasheed, 2005). As a result of increased concern about corporate misconduct, there have been calls by editors in the Academy of Management's journals to address this issue through enlightened research (Adler, 2002; Donaldson, 2003). Throughout the last fifteen-plus years, scholars have continued to answer this call for action by thoroughly examining the causes and consequences of corporate misconduct (Arthaud-Day et al., 2006; Ashforth et al., 2008; Kang, 2008; Paruchuri & Misangyi, 2015; Wiersema & Zhang, 2013).

This dissertation contributes to this line of research by creating a new theoretical construct of executive personal misconduct and thus broadening the study of misconduct to personal character indiscretions of management. This extension of misconduct to include character indiscretions of top management offers a bridge between the "bad apples" and "bad barrels" misconduct perspectives found within the management literature. While the micro-focused literature certainly examines the morality and character of individuals at lower levels of a firm (Ashforth et al., 2008), the extent to which character indiscretions affect the firm and other high-ranking individuals within a firm is under explored. On the other hand, the macro literature has extensively described

negative firm and managerial/board outcomes for firm misconduct. Yet, the contexts examined in this literature tend to focus on corporate misconduct at the operational level of the firm. Thus, the literature has a gap and is in need of a better understanding of how character indiscretions of top-management affect the firm and its members.

The importance of filling this gap with a greater understanding of the influence of character indiscretions of top-management may be viewed in light of changing social norms. Many societies now revere management as celebrity figures and attribute firm persona, strategy, and performance to these top executives (Hambrick & Mason 1984; Hayward et al., 2004). Additionally, the rise of social media and other technologies has also engendered an anti-privacy revolution, wherein strangers can easily access personal information and details about an individual's private life, behavior, and even whereabouts.

The confluence of these changes has resulted in public interest and a 24-hour news cycle that reports on intimate details of publicly important figures, which includes the lives of top executives (Lin, 2008; Umphress et al., 2013). Consequently, as demonstrated herein, external observers may associate the character flaws of management with the general competency of the firm.¹⁷ Therefore, in bridging the gap of how individual character and moral attributes affect top-level leadership and firm outcomes, this dissertation offers a better understanding of how character transgressions by management affect macro-level outcomes, which is a relevant topic of discussion given the immensity of recent societal changes.

¹⁷ This assertion is demonstrated in the negative market reaction that is shown to proceed a personal misconduct event.

This dissertation also contributes to the study of stigma and misconduct. Much of the misconduct literature uses contexts related to an achieved stigma, where punished actors are directly connected to the stigmatizing action or event. Such is the case in the study of executive and firm outcomes – and to a certain extent, director exit after a financial misconduct – and other forms of operational misconduct and illegal activities. On the other hand, the literature that has examined existential stigmas has done so at the industry level (Jonsson et al., 2009; Kang, 2008; Paruchuri & Misangyi, 2015). Thus, there is a dearth of research that examines the effects of existential stigma within organizations and the extent to which an existential stigma transfers to the firm and transforms into an achieved stigma.

This dissertation shows that the stigma – whether perceived or realized – may spread throughout the organization even if the act did not occur as part of an organizational process and is not directly attributed to members of the firm. A stigma by association can spread to far-reaching areas within a firm and in the course of stigma diffusion – the stigma felt by the non-focal actors – may take a distinct form different from the originating stigma. Thus, even an existential stigma event has the potential to transform into an achieved stigma for unrelated actors.

This dissertation also contributes to the literature on director exit. This research reveals that outside directors may exit a firm in more innocuous instances of firm turmoil than previously considered. While the literature has revealed that directors may exit a firm due to a variety of personal reasons independent of firm crises (e.g., Boivie et al., 2012), mass director exit is believed to occur predominantly during times of crises

(Arthaud-Day et al., 2006; Fahlenbrach et al., 2010). This dissertation supports the conclusion that outside directors do not exit in mass in normal circumstances, but also offers an interesting take on director exit by showing that outside directors exit for misconduct that mostly leaves firm operations intact. Outside directors may be more sensitive and susceptible to exit than previously believed. Thereby, director exit may occur in other scenarios that threaten the firm to a lesser degree than previously studied.

Study Limitations and Future Research

As with any research, this study is not without limitations. First, this study uses a sample primarily composed of firms from the United States. This sample may not be generalizable to firms located in other countries. Because character indiscretions and stakeholder judgment may vary based on the social norms of a given society, offenses that are categorized in this sample, as a personal misconduct transgression may not be considered a transgression in other societies. Moreover, societal changes in technology, the media, CEO celebrity status, and workplace and privacy boundaries may also not have changed to the same degree in other countries. Therefore, character indiscretions of top management in other societies that have not undergone these types of societal changes may not yield the same effects.

Another limitation is the small sample used. Because these types of incidents seldom occur, my misconduct sample is only composed of 62 firm events. Obviously a larger sample could improve power and may even boost the significance of some control variables. Further, the sample that was used only includes instances of publicly-reported

personal misconduct transgressions. There might be many more cases of personal misconduct transgressions that go unreported when such information is kept inside the firm.

This dissertation also does not distinguish between voluntary and involuntary director exit. This study does not argue nor controls for features that might distinguish between the two types of exit. Thus, at this point, I cannot definitively say that either type of exit is more prominently featured. While I propose that director exit is due to a likely concern over the incident, aftermath, and handling of the personal misconduct event, I cannot with confidence distinguish between fears of a tarnished reputation versus actual blame for the sequence of events. As such, I argue for both perspectives and, therefore, the exact rationale behind the exit is currently unexplained in this dissertation.

Lastly, I have suggested directors leave after an executive personal event because they are associated with governance failure and are related to a tarnished executive that may besmirch their reputation. Although 28 percent of directors leave the board after a misconduct event, 72 percent still remain. This counter perspective is a continued limitation of misconduct research in the management literature. In corporate misconduct, including severe types of misconduct such as financial restatements, the majority of directors remain with the firm (Marcel & Cowen, 2014).

Scholars have examined this question by looking at a variety of factors that can affect a director's propensity to exit including board tenure, compensation, social and human capital, focal firm governance characteristics, external professional

responsibilities, and the director's position of responsibility in the focal firm (Arthaud-Day et al., 2006; Bovie et al., 2012; Cowen & Marcel, 2011; Marcel & Cowen, 2014; Srinivasan, 2005). Likewise, in my research I examined several of these factors and noted a number of variables, including director shares owned, director board tenure, and board independence that affect the likelihood of director exit.

Further, due to the nature of the particular misconduct examined, I incorporate additional factors (e.g., media attention and executive turnover) that signify misconduct severity at the firm level. For example, in instances of low media volume only 16 percent of directors left, which denotes the overwhelming majority of directors stayed with the firm. However, in instances of high media volume 45 percent of directors left. Thus, my research explains influences that affect the percentage of directors that exit/stayed by examining contingent factors relating to consequences of the misconduct. However, other factors not explored in this study, such as director social ties, interpersonal relationships, and influence in the hiring decision of the executive might also affect whether a director leaves or stays. In general, why directors stay as opposed to leave is underexplored and a good research question for future exploration.

There are several unanswered questions that could provide a worthwhile extension to the findings found in this dissertation. First, as indicated in the previous section, a study that examines executive personal misconduct and involuntary director exit is warranted. The results from certain variables used in this research, including the director's shares owned, directors serving in leadership roles in other firms, and the moderator that captures directors in leadership roles in the focal misconduct firm,

suggest that directors might voluntarily leave after a personal misconduct event. Therefore, because directors may exit a firm when they believe their reputation is threatened or when they are dissatisfied regarding the future direction of the firm, an argument could be made that director exit during times of non-severe misconduct is different than during times of severe misconduct (Cowen & Marcel, 2011; Pozner, 2008; Srinivasan, 2005).

While not formally taking a position on the voluntary and involuntary director exit debate, findings from this dissertation suggest that involuntary exit might occur in this particular instance of misconduct. In general, the study of executive personal misconduct provides an opportunity to reignite a debate on this issue. For instance, an unruly executive and the corresponding headache he/she created for the firm – and subsequently for the board of directors – may simply be too much for some directors to handle. While it has been previously described that a director will leave a board if he or she has many other responsibilities (Bowie et al., 2012), it is entirely possible that a director might exit in order to avoid the undue burden of responsibility as a result of immoral actions by the executive.

Most studies that have examined this issue use the lens of severe forms of misconduct, such as financial restatements, and the results from that literature indicate that director exit occurs on an involuntary basis (Marcel & Cowen, 2014). However, the context might naturally bias the extent to which director's exit voluntarily. Due to the nature of this context, in instances of severe misconduct, firms will “clean house,” which consequently leaves little room for discretion among directors of whether to stay or

leave. In contrast, after an executive personal incident, which also may be severe, but is indirectly related to the directors, there might be less of a tendency to clean house and a greater tendency for directors to leave on their own volition.

Another possible extension of this study could examine the external labor market penalties for the culpable executive and directors that leave the focal misconduct firm. It is noted that both executives and directors often face external labor market penalties after a financial restatement (Arthaud-Day et al., 2006; Cannella et al., 1995; Karpoff & Lott, 1993; Srinivasan, 2005). It has been asserted that executives that lose their jobs do not regain an equivalent employment in the years following misconduct (Wiesenfeld et al., 2008). Likewise, directors also tend to lose seats on other firms' boards (Fich & Shivdasani, 2007; Moore et al., 2010; Pozner, 2008).

Future research could examine these possibilities after an executive personal misconduct incident. Interestingly, anecdotal evidence suggests that executives may quickly recover from these transgressions, especially, if the executive was performing well at the former firm (Lashinsky, 2015). Thus, at least in the case of executives, character indiscretions are more easily forgiven than competency indiscretions, especially if the executive has demonstrated a record of outstanding performance. As such, I would expect that this scenario also hold true for directors, or directors may not even be penalized at all because the executive's character indiscretion was not directly attributable to the actions of the director. These ideas for future research illustrate that further development on this construct of executive personal misconduct is needed and will hopefully spur robust research opportunities for management scholars.

Conclusion

This dissertation suggests that personal moral transgressions by an executive that are tangential to operational aspects of a firm may still create consequences for the firm's outside directors, even though these individuals were not participants in the focal misconduct. I hypothesize that the misconduct engenders a stigma-by-association threat that potentially transfers negative perceptions of the event to certain outside directors, causing a higher likelihood of director exit. The results from this research find that executive personal misconduct is associated with an increased likelihood of director exit, and the presence of signals of stigma, including executive turnover and media attention also affect the likelihood of director exit. Thus, executive personal misconduct herein classified as an existential stigma, tends to spread beyond the focal executive to the board of directors. These findings add value to the management literature and specifically research on misconduct. This research conceptually extends corporate misconduct to circumstances that are not directly tied to firm operations, and indicates that stigma by association within a firm may originate from transgressions that are indirectly related to actions of the focal organization.

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APPENDICES

Table 4: An Array of Personal Misconduct Transgressions

Interpersonal Deviance	<ul style="list-style-type: none">• Extramarital affairs• Sexual harassment• Use of offensive speech
Organizational Deviance	<ul style="list-style-type: none">• Misstating professional, educational, or social content on a resume or biographical depiction• Misuse of resources for personal benefit (e.g., pornographic materials on company computer)
Informal Social Deviance	<ul style="list-style-type: none">• Donations to provocative activist groups• Promoting extreme political views• Revelation of controversial sexual practices• Engagement in or distribution of pornographic materials in public spaces or social media• Participation in sexual interactions on controversial websites
Illegal Activities	<ul style="list-style-type: none">• Reported drug use• Driving under the influence• Public intoxication• Prostitution• Domestic violence• Child pornography• Possession of illegal firearms• Animal abuse

Table 5: Empirical Publications of Corporate Misconduct and Stigma

	Event Stigma	Core Stigma	Organizational Failure	Misconduct	Journal
Moore, Stuart, & Pozner, 2010	✓			Financial Fraud	WP
Sutton & Callahan, 1987	✓		Bankruptcy		AMJ
Durand & Vergne, in press		✓			SMJ
Jonsson, Greve & Fujiwara-Greve, 2009	✓			Corporate Deviance	ASQ
Carberry & King, 2012	✓			Stock option expensing	AMJ
Hudson & Okhuysen, 2009		✓			OS
Kang, 2008	✓			Financial Fraud	AMJ
Vergne, 2012		✓			AMJ
Semadeni, Cannella, Fraser, & Lee, 2008.	✓		Bankruptcy		SMJ
Gangloff, Connelly & Shook, 2014	✓			Financial Fraud	JOM
Cowen & Marcel, 2014	✓			Financial Fraud	SMJ
Marcel & Cowen, 2011	✓			Financial Fraud	AMJ
Helms & Patterson, 2013		✓			AMJ
Arthaud-Day, Certo, Dalton, & Dalton, 2006	✓			Financial Fraud	AMJ
Paruchuri & Misangyi, 2015	✓			Financial Fraud	AMJ
Wiersema & Zhang, 2013	✓			Stock Option Backdating	SMJ

Abbreviations for journals are as follows:
Academy of Management Journal (AMJ)
Administrative Science Quarterly (ASQ)
Journal of Management (JOM)
Organization Science (OS)
Strategic Management Journal (SMJ)
Working Paper (WP)